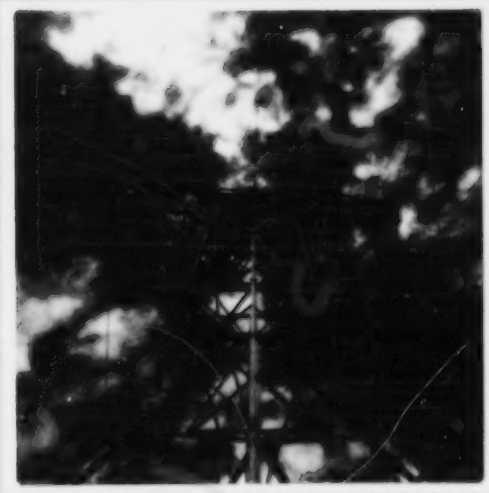

2003/04 Annual Report

Énergie NB Power

June 30, 2004

To His Honour
The Honourable Herménégilde Chiasson
Lieutenant-Governor of New Brunswick

Sir:

New Brunswick Power Corporation begs leave to submit, in accordance with the *Electric Power Act*, Chapter E-5, of the revised Statutes of New Brunswick 1973 as amended, the report for the fiscal year ended March 31, 2004.

I am, Your Honour,
Yours very truly,

Leon R. Furlong, FCA
Chair

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Operational Highlights

Generation

High levels of performance were recorded as units met availability and reliability goals, critical as three all time demand peaks were established. Measured on performance and cost, Belledune was the second most economic coal-fired generator in North America. Refurbishment of Coleson Cove, key to future capacity and environmental goals, is on schedule for completion in January 2005.

Nuclear

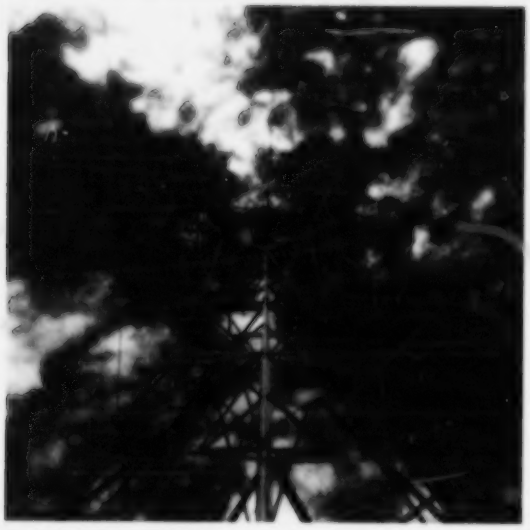
Point Lepreau had its best performance in a decade with no unplanned outages and successful completion of a maintenance outage. Staff worked one million person-hours without a lost-time accident, the third such milestone in four years. Compliance with the ISO 14001 environmental management system continued and a positive environmental assessment was received for expansion of the radioactive waste management facility.

Transmission

Operations and financial goals were surpassed and maintenance programs contributed to improved reliability indicators. Response to the August 14th blackout, as the power system compensated for a large load imbalance flowing northward, demonstrated that systems, equipment and training are effective. The open access transmission tariff was implemented providing non-discriminatory access to generators and consumers.

Customer Service

Customer Service had positive budget performance despite weather related expenses. Customer surveys demonstrated high satisfaction rankings, and improvements in frequency and duration of customer interruptions were recorded. Notable success continued in worker safety, the result of renewed focus from employees, management and union, and in public safety, the result of an integrated media safety campaign.



Financial Highlights

Financial Performance

	2003/04	2002/03	2001/02
Net income (loss)	$ (18)	$ (77)	$ 19
Operating cash flow	$ 256	$ 139	$ 234
Free cash inflow (outflow)	$ (376)	$ (86)	$ 64
Reduction (increase) in net debt	$ (321)	$ (149)	$ 81

Financial Ratios and Percentages

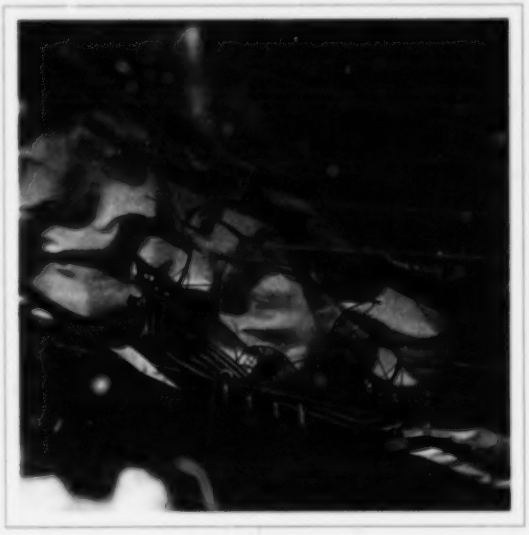
	2003/04	2002/03	2001/02
Operating margin	14%	12%	19%
Operating cash flow / capital expenditures	0.52x	0.66x	1.73x
Operating cash flow / total debt	0.08x	0.05x	0.08x
Percent of debt in capital structure	106%	106%	104%
Interest coverage ratio	0.88x	0.68x	1.06x

Corporate Profile

NB Power operates one of North America's most diverse generation and interconnected transmission systems. Economic generation from a variety of sources — oil, hydro, nuclear, coal, and Orimulsion® — is reliably delivered to over 360,000 direct and indirect customers through a network of more than 26,700 kilometers of power lines and numerous substations and terminals.

Generation

Operating one of North America's most diverse generating systems, Generation produces economic electricity at its oil, hydro, coal, Orimulsion® and diesel-powered stations. The network of conventional generating stations has an installed capacity of 3,134 MW comprised of thermal capacity of 1,923 MW, hydro capacity of 884 MW and combustion turbine capacity of 327 MW.



Nuclear

The CANDU 6 – 635 MW unit at Point Lepreau generates low-cost electricity, supplying approximately 25 percent of in-province energy. Generation from the station is important to the Corporation's economic and environmental performance because it is the lowest variable cost thermal generator on the system and displaces significant amounts of air emissions.

Transmission

Responsible for reliable and safe delivery of electricity to the distribution system network customers and point-to-point transmission customers, Transmission operates and maintains 6,700 km of transmission lines, terminals, radio towers, switchyards and interconnections. The Energy Control Centre is the operational hub of the power system and provides transmission system access via the online Open Access Same-Time Information System ("OASIS").

Customer Service

Serving residential, commercial, wholesale and industrial customers across the province, Customer Service safely and reliably delivers competitively-priced electricity by way of its 20,000 km of distribution lines. It provides valued customer products and services through its regional operations offices, customer contact centres, energy advisors and account managers.

Corporate Services

The Corporate Services group comprises Human Resources and Administration, Business Information Systems, Finance, Corporate Planning, Telecommunications, Environment, Legal, and Public Affairs. By providing strategic direction and support these divisions enable the business units to better perform in the generation and delivery of low cost, reliable electricity. A new Shared Services organization has been created by merging existing service areas in computer-aided design, docs source, environment, information systems, facilities, real estate, telecommunications, supply and accounts payable.

As we turn the page on 2003/04, we look forward to a new and exciting chapter for NB Power.

April 13, 2003
External audits conducted on environmental management systems in Transmission and Customer Service

Message from the Chair

This annual report represents an ending and a new beginning.

With the proclamation of the *Electricity Act*, scheduled for October 1, 2004, NB Power will be reorganized into a holding company with subsidiary operating companies. As a result, the Corporation, the market in which it will operate, and senior management and employees all share the common challenge of significant change.

The *Electricity Act* allows for creation of a competitive environment for wholesale and large industrial electricity consumers and expands opportunities for the development of non-utility generation. With this *Act*, the most progressive electricity reforms in the Atlantic region, New Brunswick has undertaken a managed restructuring of the electricity sector that provides for the introduction of competition for larger energy consumers, while ensuring that all current customers can continue to receive their current level of service from NB Power.

NB Power enters this transition year well prepared as the Board of Directors, senior management and employees have built a strong foundation for this new corporate structure and marketplace.

NB Power continues to take positive action to meet future energy needs. The objectives of the Corporation's development plan are to ensure the availability of reliable power, meet evolving environmental standards, and maintain competitive power rates that support economic growth. There has also been greater emphasis on regional cooperation between utilities and governments in the Maritime area with each recognizing the potential benefits from joint approaches to development.

During the year, the Board of Directors focused on measures to ensure sound strategic planning, financial reporting and management succession. In particular, the changes required for the restructuring of both the electricity sector and the Corporation demanded a high level of activity. As well, the Board spent a great deal of time on the refurbishment project at Coleson Cove and the Orimulsion® contract with Venezuela. In the coming months, one area of focus will be on improved governance structures to ensure more formalized accountability and greater transparency.

During the year, NB Power suffered the loss of our Chair with the death of Dan Skaling. Mr. Skaling, who was appointed on April 12, 2002, filled the position in an exemplary manner. Despite fighting a terminal illness for over a year, he welcomed the opportunity to positively influence the future of this Corporation and his home province. The fiscal year saw as well the retirement of acting President and CEO Stewart MacPherson. A career employee, Mr. MacPherson had more than 37 years of dedicated service.

At the end of 2003/04, NB Power welcomed its new President and CEO, David D. Hay, whose task will be to lead the transition of the Corporation to operate successfully on a commercial basis in a more competitive market.

We look forward to the future, our new structure and the opportunity to better serve our customers.

Leon R. Furlong, FCA
Chair – Board of Directors

The challenges and opportunities that lie ahead are daunting but not overwhelming. As our

May 2, 2003
Dalhousie station reaches two-year mark with no lost-time accidents

May 15, 2003
Arbor Day marked with the City of Moncton, the Town of Riverview and Communities in Bloom

With the opening of New Brunswick's electricity market to competition and a new corporate structure to further business-based operations and decision making, NB Power is moving forward into a new era. The Corporation enters this era with a marked improvement in financial performance from operations over the previous year, though there was a net loss because of a one-time write-off. While NB Power has a strong foundation of operating excellence and encouraging development opportunities, it will also focus squarely on the significant challenges and decisions that confront the Corporation.

Message from the President and CEO

Operating Performance

The Corporation recorded a net loss of $18 million in 2003/04 on total revenues of $1.3 billion. While income from operations during the year was $26 million compared with a loss of $77 million in 2002/03, a one-time $44 million charge was taken against net income for costs associated with the fuel handling system at the Coleson Cove Refurbishment Project. The most important contributing factor to the improvement in operating income was a $96 million increase in year-over-year margins on in-province and out-of-province sales. This was due to lower energy production costs resulting from greater hydro generation and an increase in year-over-year nuclear generation. Other factors, predominately higher fuel and pension expenses, hindered the impact of positive developments. In ordinary times, these factors would have resulted in positive financial performance, however, they were offset by the one-time write-off.

The business units recorded notable successes during the fiscal year. Generation's achievements included the Belledune Generating Station's recognition as the second-most economical coal-fired generator in North America and high performance in availability and reliability. Nuclear experienced its best year since 1994/95 with a capacity factor of almost 86 percent. Transmission surpassed its major operational and financial targets. Its handling of the August 14, 2003 power surge contributed to the Maritime Control Area avoiding the blackout that affected hundreds of communities from Cleveland to Toronto to New York City. Distribution and Customer Service recorded a surplus on its operational, maintenance and administration budget despite an unbudgeted storm expense.

operational success marks the year ended, it will provide the foundation for this new era. Our

May 17, 2003
Belledune reaches significant milestone operating consistently without interruption for 365 consecutive days

May 23, 2003
NB Power receives positive regulatory decision for the International Power Line

Areas of Challenge and Decision

Despite these operational successes, NB Power faced major challenges during the year related to the two major development projects. The most significant of these involved fuel supply for the Coleson Cove Generating Station. In February 2004, the Corporation took legal action against Petroleos de Venezuela ("PDVSA"), the Venezuelan state oil company and Orimulsion® fuel supplier, to compel execution of a fuel supply agreement or payment of damages. Related to this, the New Brunswick Legislative Assembly's Standing Committee on Crown Corporations held public hearings into the circumstances surrounding the fuel agreement.

Shortly after the close of the fiscal year, the Government of New Brunswick received a report from Dr. Robin Jeffrey on the proposed refurbishment of the Point Lepreau Generating Station. While Dr. Jeffrey endorsed a number of areas relating to the project, his report was critical of the major contracts for the project.

Securing a reliable, economic fuel supply for Coleson Cove and finalizing contracts for the proposed Point Lepreau project will be priority areas. While efforts are underway to re-establish negotiations with PDVSA, the station is projected to burn heavy fuel oil in the near term with the expectation of switching to Orimulsion® or another lower cost fuel in the medium term. Fuel switching may require development of a new fuel handling system and alternative delivery options are being considered. Regarding the Point Lepreau project, the Corporation has committed to renegotiate the project contracts and complete other undertakings in the Jeffrey Report. The Provincial Government expects to make a decision on the project during 2004/05.

Focused Energy

NB Power is ready to move forward into a new era, one that brings challenges, excitement and the opportunity to fulfill great promise for New Brunswick.

Looking Forward

The coming year will bring an exciting milestone for NB Power. On October 1, 2004, the Government of New Brunswick intends to proclaim the *Electricity Act*. This will create the conditions for a competitive market for wholesale and large industrial electricity consumers. At the same time, the Corporation will take the next step in its 84-year tradition of service to New Brunswick. It will become a holding company with four operating companies responsible for conventional generation, nuclear generation, transmission, and distribution and customer service. The purpose of this restructuring is to best equip NB Power for market conditions, to clarify financial accountability and properly balance the interests of ratepayers and taxpayers.

The Corporation's focus moving into the future is to continue to be a safe, reliable, environmentally responsible supplier of reasonably priced electricity. NB Power will approach that future with a corporate culture characterized by:

- formalized accountability
- focus on business decision making and operations
- openness with the public characterized by frankness on the issues facing the Corporation

During the coming fiscal year, new governance measures to ensure the necessary accountability, openness and frankness – all key elements in effective risk management – will be introduced. At the same time, the new structure will encourage efficiency and profitability and, in doing so, help maintain our competitive rates. It will also ensure greater transparency for taxpayers and ratepayers because each company will have its own financial statements and business plans. This will contribute to more effective oversight with a full understanding of the business risks facing the Corporation.

NB Power is looking forward to its new structure. The reorganization is consistent with the recommendations from a series of public reports on the electricity sector dating back to 1998. Staff have been working very effectively to prepare for restructuring and operations in a more competitive environment with particular emphasis on business planning.

As well as new market conditions and a new structure, NB Power will prepare to meet New Brunswick's growing energy needs. In addition to the current development projects, the planning calls for increased use of renewable energy sources and greater emphasis on regional approaches to energy issues. In particular, a second International Power Line, a transmission line and interconnection with Maine, will benefit the region and foster development of a regional market.

NB Power is ready to move forward into a new era, one that brings challenges, excitement and the opportunity to fulfill great promise for New Brunswick.

David D. Hay

David D. Hay
President and CEO

next chapter will introduce a new corporate structure, which will result in greater operational

July 28, 2003
Hydro stations mark six years with no lost time accidents

With proclamation of the *Electricity Act* scheduled for October 1, 2004, the Government of New Brunswick will allow for creation of a competitive market for wholesale and large industrial electricity consumers, and expand non-utility generation opportunities. NB Power's vertically integrated generation, transmission and distribution structure will be reorganized as a holding corporation with subsidiary operating companies.

Business Development

Corporate Restructuring

Under the *Electricity Act*, NB Power will be continued as New Brunswick Power Holding Corporation ("NB Power Holding") and it will establish four subsidiary operating companies:

1. New Brunswick Power Generation Corporation ("NB Power Generation"), with subsidiaries NB Coal Limited ("NB Coal") and New Brunswick Power Coleson Cove Corporation ("NB Power Coleson Cove")
2. New Brunswick Power Nuclear Corporation ("NB Power Nuclear")
3. New Brunswick Power Transmission Corporation ("NB Power Transmission")
4. New Brunswick Power Distribution and Customer Service Corporation ("NB Power Distribution and Customer Service")

The new operating companies will manage their revenues and costs, eventually borrow without a provincial guarantee (excluding NB Power Nuclear), achieve targeted returns, and make dividend and special payments in lieu of income and capital taxes. NB Power Holding, comprised of the common president and chief executive officer for the operating companies as well as finance, legal and public affairs divisions, will facilitate interaction with the government. A Shared Services organization will provide common business services to the operating companies on a cost recovery basis.

accountability and allow us to be well positioned as the electricity market opens to competition.

August 12, 2003
Point Lepreau Solid Waste Management Facility receives positive regulatory decision from provincial and federal authorities

August 14, 2003
NB Power successfully responds to the Northeast Power Blackout

Market Restructuring

The *Electricity Act* provides for the creation of a bilateral market in which eligible customers may contract with generators or suppliers. These eligible customers include existing wholesale municipal energy companies (Saint John and Edmundston) and large industrial customers served from the transmission system.

NB Power Distribution and Customer Service has been designated as the standard service provider, and will be supplied electricity through long-term power purchase agreements with NB Power Generation, NB Power Coleson Cove, and NB Power Nuclear. Customers who are not eligible or who decide not to enter the market are entitled to a standard service consistent with service provided by NB Power pre-October 1, 2004. As generating assets retire or additional supply is required, the standard service supplier will procure supply through the competitive market. For market participants that purchase electricity other than from NB Power Distribution and Customer Service, the Public Utilities Board will determine an exit fee so as not to financially burden remaining customers.

The *Electricity Act* creates two new Crown Corporations. The New Brunswick System Operator will be an independent, not-for-profit Crown Corporation that directs transmission system operation and administers the Open Access Transmission Tariff. The New Brunswick Electric Finance Corporation will assume NB Power's debt and provide financing to the operating companies until such time as they can borrow on their own.

Development Projects

The following projects are at various stages of development or awaiting approval from the Board of Directors and the Government of New Brunswick.

NB Power's development plan is designed to ensure the availability of reliable power, meet evolving environmental standards and maintain competitive rates that support economic growth.

Coleson Cove Generating Station Refurbishment

The Coleson Cove Generating Station is a three unit, 998 MW net heavy fuel oil facility. Generation from the station is required to meet future demand and investment was necessary to meet more stringent environmental standards. The most significant portion of the $747 million refurbishment is the installation of advanced control equipment to significantly reduce sulphur dioxide, nitrogen oxide and particulate emission rates. With the completion of the refurbishment in January 2005, the station's operating life will be extended to 2030.

The project included conversion with the intended fuel Orimulsion®. As the fuel supply agreement was developed, however, subsequent uncertainties arose. In February 2004, NB Power filed a statement of claim against Bitor America Corporation and Petroleos de Venezuela ("PDVSA"), the fuel supplier, for breach of contract. While efforts are underway to re-establish negotiations with PDVSA, the station is projected to use heavy fuel oil in the near term with the expectation of switching to Orimulsion® or another lower cost fuel in the medium term. Fuel switching may require development of a new fuel handling system and alternative delivery options are being considered.

Point Lepreau Nuclear Generating Station Refurbishment

NB Power is proposing to refurbish the Point Lepreau Generating Station during an 18-month outage scheduled to begin in April 2008. The $940 million project would replace all 380 fuel channel and calandria tube assemblies and feeders as well as complete other equipment replacements, inspections and upgrades to allow the station to operate an additional 25 years. The project has received required approvals under the federal *Canadian Environmental Assessment Act* and provincial environmental impact assessment regulations.

In September 2002, the PUB recommended to the Board of Directors that the project, as presented, not proceed because of a lack of significant financial advantage over natural gas, a potential source of generation. The Government of New Brunswick solicited a third-party review of the project and in a report released in April 2004, Dr. Robin Jeffrey concluded that refurbishment offered no economic advantage over alternative supply options and the project contracts gave disproportionate financial risk to NB Power.

Dr. Jeffrey endorsed the project's condition assessment process, risk mitigation strategy, communication with the CNSC on regulatory issues, early environmental approvals, integrated schedule, detailed implementation plan and progress reporting. He made an important statement of confidence by concluding that the refurbishment would not suffer massive cost and schedule overruns as experienced on Pickering 'A' - Unit 4. In response to Dr. Jeffrey's main concern, NB Power committed to renegotiate the project contracts with Atomic Energy of Canada Limited. The Government of New Brunswick is expected to make a decision on refurbishment during 2004/05.

International Power Line Project

NB Power has identified the 345 kV International Power Line Project as the primary means to increase security of supply, enhance the reliable and efficient transmission operation and foster development of the regional electricity market. The National Energy Board has issued a conditional Certificate of Public Convenience and Necessity to begin the project and NB Power is working with Bangor Hydro-Electric Co. to secure the permits required to construct and maintain the line in Maine. Upon receipt of all necessary permits, the recovery of costs through the tariff needs to be resolved.

Renewable Energy

Following a public request for proposals, NB Power is in the final stage of negotiations for a power purchase agreement with Eastern Wind Inc. for a 20 MW wind farm on Grand Manan. The proposed wind farm will have 11 turbines and could be generating electricity as early as the fall 2005. NB Power Distribution and Customer Service intends to purchase the output and environmental attributes from the project through a twenty-year power purchase agreement as part of a long-term goal to acquire 100 MW from renewable energy projects.

Also telling will be the addition of wind energy to the already diverse provincial generation mix.

August 27, 2003
Intrepid 2003 emergency preparedness exercise conducted by Point Lepreau station and NB Emergency Measures Organization.

NB Power is committed to being a socially responsible organization and sustaining the quality of life in New Brunswick. The Corporation plays a leading role in economic development through its operations, while societal enrichment is fostered by corporate sponsorships and employee involvement in community activities.

Social Responsibility

Community

Encouraging excellence at each level of the education system contributes to the province's development. NB Power sponsors university chairs in engineering and business that drive research and development. Scholarship programs encourage secondary and post-secondary school graduates to further their education. The Youth Leadership Program, a $1,500 scholarship awarded in each of New Brunswick's school districts, recognizes students who have contributed to their school and community while maintaining high academic standards. Opportunities for students to gain knowledge of the energy sector are created through internships and co-op programs. High school graduates benefit from scholarships offered by the 25 Year Club, an association of long-term employees. Similarly, the International Brotherhood of Electrical Workers Local 37 awards bursaries for post-secondary education.

This expanded generation mix will be supported by a robust and interconnected transmission grid

September 13, 2003
Point Lepreau station begins planned maintenance outage

September 14, 2003
NB Power's *Look out for the Lines* safety campaign begins fall series

Innovative liaison committees have kept neighbouring communities informed on development projects at Coleson Cove and Point Lepreau. Input from community residents, property owners and elected representatives is essential to successfully completing a project in a climate of mutual understanding and co-operation. This also leads to community activism in Lorneville near the Coleson Cove Generating Station, staff worked with volunteers to restore a local cemetery and church.

Community efforts centred on environmental issues are an on-going priority. By supporting Science East workshops and exhibits, greater public awareness was achieved on energy and climate change issues. The interactive exhibits for the Energy and Climate Change Gallery, sponsored in part by NB Power, are being adapted for use in high schools. NB Power is also a classroom sponsor of the Ducks Unlimited Duckwing Program which purchases learning materials and funds field trips so that students can learn first-hand about wetlands.

People

By participating in numerous fundraising events, employees generate the energy behind community activism throughout New Brunswick. NB Power's corporate United Way 2003 campaign, the focal point of fundraising, raised approximately $53,000. To assist adult literacy efforts, NB Power was the presenting sponsor of the 2003 Peter Gzowski Invitational. This day-long charity golf tournament raised more than $135,000 in New Brunswick, another record amount.

Numerous fundraising events range from the corporate-sponsored Snowarama, for children with disabilities, to the initiatives of local groups of employees in support of the Cancer Relay for Life, the IWK and the Run for the Cure. NB Power is also one of the thousands of businesses across Canada that supports Junior Achievement through the encouragement of employee participation and volunteerism and sponsorship of the Junior Achievement Hall of Fame.

Principles

NB Power and its employees are committed to enriching their community through corporate and individual leadership and activism.

NB Power values its employees and is committed to providing a working environment that encourages career growth and appreciates the importance of a balanced life.

NB Power is committed to fostering the well-being of its employees and the public, championing health, wellness and safety.

Well Being

NB Power's primary wellness focus is on employee and public safety and health. Successful safety programs, described elsewhere in this report, provide employees with the work environment that they deserve. NB Power promotes public safety through an integrated radio, television, newspaper and Internet campaign with reminders to remain safe by the now familiar "Start Smart" and "Look out for the Lines" slogans. Kids' Zone, an award-winning website, entertains and informs children about electrical safety complementing information provided to teachers and children. These efforts are extended to school programs, training and facility security. Success has been demonstrated by the significant decline in the number of public contacts with electrical facilities.

Equally as vital, a healthy workforce means a higher quality of life for employees both on the job and at home. An integrated human resources strategy – incorporating among other aspects leadership excellence, labour partnership, safety and wellness – creates an environment that allows individuals and teams to perform at their best and make NB Power an employer of choice. The Corporation contributes to employee well-being by providing a leading health care plan with an innovative focus on wellness. Employees are encouraged to fulfill their careers through training options by following programs that are tailored to enhance their professional specialties.

and delivered by a sound distribution system. Our commitment remains to providing safe reliable,

September 29, 2003
NB Power dispatches crews to assist with emergency restoration following Hurricane Juan's devastation in Nova Scotia

September 30, 2003
New transmission tariff takes effect

With the mandate to generate electricity in New Brunswick comes the responsibility to protect and respect the environment. NB Power's major generating facilities have state-of-the-art environmental protection equipment and operations are undertaken in compliance with environmental regulations. Each business unit/operating company has implemented an ISO-consistent Environmental Management System and the Point Lepreau Generating Station is ISO 14001 registered.

Environmental Protection

NB Power provides a framework for establishing and advancing environmental objectives, targets and procedures. Environmental legislation and non-regulatory commitments are followed at each facility from initial project planning through to operation and decommissioning. Periodic environmental audits and monitoring programs assess compliance with regulations and consistency with industry standards and internal procedures. To further public accountability, NB Power has annually published an environmental performance report since 1996 and has gained national recognition for sustainability reporting.

environmentally responsible and reasonably priced electricity. To maintain a reasonable price for

October 16, 2003
Point Lepreau station returns to service following successful maintenance program

Our Year in Focus

Through environmental upgrades, operational compliance and assurance programs, NB Power has contributed to the protection of New Brunswick's environment. For example, during 2003/04:

- sulphur dioxide emissions were below regulated limits
- particulate emissions were below federal levels for new station sources
- wastewater effluent was below regulated annual limits
- more than 200,000 tonnes of generation by-products were recycled
- generating stations at Coleson Cove, Belledune, Mactaquac, Tobique and Dalhousie received various regulatory approvals for wastewater treatment systems and/or domestic sewage systems

Also during the year, the Point Lepreau solid radioactive waste management facility received positive regulatory decision from provincial and federal authorities.

As part of the Coleson Cove Refurbishment Project, a Community Environmental Liaison Committee continued to meet on a regular basis to share information and provide community input and recommendations regarding the project. Topics reviewed included the air quality monitoring program, traffic, spill response and fuel delivery. As a partner in the Furbish's Lousewort Recovery Team, NB Power continued its support of the recovery team and partnered with the Nature Trust of New Brunswick to develop a conservation plan for areas in the Upper St. John River Valley.

NB Power has contributed significantly to preserving the osprey, once an endangered species. Regular patrols of transmission lines during 2003 discovered 14 new osprey nests, bringing the total number of nests on the transmission system to 315. There were also 17 crow's nests and one hawk nest built on transmission structures. Transmission employees routinely trim these nests to preserve the osprey's habitat and prevent contact with electrical conductors. A new design for platforms was placed in 2003.

Principles

Leadership – a leading role in environmentally responsible technologies and methodologies

Standards – complying with legislation and commitments

Audits – regular audits and monitoring to assess compliance

Protection – a framework of environmental objectives, targets and procedures

Partnership – actions extending to contractors, consultants and suppliers

Focusing Our Energy

The current development plan will result in further environmental performance improvements. Progress was achieved during the year on refurbishment projects at Coleson Cove and Point Lepreau and a new international power line. In particular, completion of the Coleson Cove project, expected during 2004/05, will make the station one of the most environmentally-advanced thermal generators in Canada. Moreover, upon completion, NB Power will have advanced environmental protection equipment at each major thermal station, an unmatched record in Canada.

A request for proposals was issued for the development, ownership and operation of up to 20 MW of wind powered generation, expected to be commissioned by March 2006. This is the first phase of NB Power's objective to acquire 100 MW from renewable energy projects by the end of the decade. Along with the Coleson Cove and Point Lepreau refurbishments, renewable energy will help to meet future emission stabilization and reduction targets.

Reflecting the reorganization of NB Power into a holding company and separate operating companies, an environmental council was formed with representatives from each operating company. To assist in communicating and maintaining the commitment to the Environmental Policy, the purpose of the environmental council is to ensure there is a clear understanding of environmental responsibilities between operating companies and Environmental Affairs in order to fulfill environmental responsibilities. The council will develop a co-operative approach to share knowledge and identify key resources focusing on environmental management systems, environmental challenges in each area and maintain a database of environmental legislation appropriate to the operating companies.

our ratepayers, our focus will be on building a corporate culture characterized by formalized

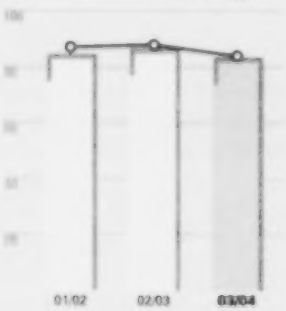
November 3, 2003
Peak construction at Coleson Cove refurbishment project

November 21, 2003
NB Power partners with Nature Trust of New Brunswick to develop conservation plan for the Furbish's Lousewort

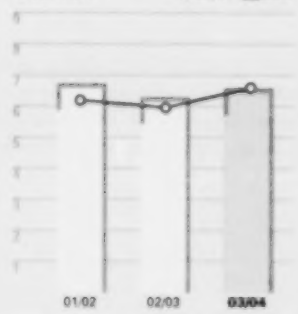
Operating one of North America's most diverse generating systems, Generation produces economic electricity at its oil, hydro, coal, Orimulsion® and diesel-powered stations. The network of conventional generating stations has an installed capacity of 3,134 MW comprised of thermal capacity of 1,923 MW, hydro capacity of 884 MW and combustion turbine capacity of 327 MW.

Generation

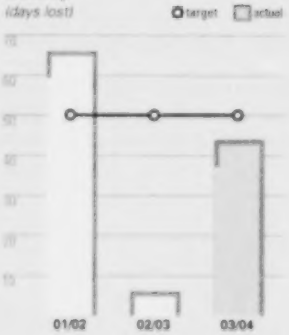
Unit Availability
(percentage)
target actual



OM&A Costs
($ per MWh)
target actual



Safety
(days lost)
target actual



accountability, a focus on business-based operations and decision making, and openness with the

December 11, 2003
NB Power issues request for proposals for wind generation

January 9, 2004
NB Power records all-time peak electricity demand

Our Year in Focus

The Generation business unit achieved a high standard of performance as its 14 facilities continued to produce economical and dependable electricity for NB Power's customers. While meeting or surpassing operational goals, the unit continued to prepare for its anticipated future mandate.

The Belledune Generating Station achieved industry-wide recognition during the year as a top performer in its field. Measured against standards for plant availability and operations, maintenance and administration costs, the station was rated the second most economic coal-fired generator in North America.

Hydro generation output was up by 20 percent over the historical average during the past year – the result of being well prepared to capitalize on higher-than-average river flows. Ensuring the high availability of generating units at the right time, combined with various efficiency initiatives, enables this renewable natural resource to be used to maximum advantage.

Exceptional performances in both capacity and reliability were important as Generation experienced three new all-time customer demand peaks during January 2004. This record demand for electricity was met through in-province generation sources.

The higher in-province load necessitated operation of all peaking generators in New Brunswick and a reduction in exports. Also affecting export opportunities was refurbishment at the Coleson Cove Generating Station, which started three weeks earlier than planned. Furthermore, the average price for energy sold in New England was lower because of locational marginal pricing, which reduced the price received from export sales.

Safety performance remained one of the unit's key priorities. Important safety milestones were reached at nearly every generating station during the past year. It is noteworthy that the hydro stations have not had a lost-time accident in six years.

Goals

Meet generating station availability targets

Manage operating (fuel & OM&A) and capital costs

Maximize out-of-province margins

Operate in compliance with environmental regulations

Champion safety of employees, public and equipment

Focusing our Energy

The refurbishment at the Coleson Cove Generating Station continued during 2003/04, with an anticipated commissioning in January 2005. Generation from the station is essential to meeting the province's future electricity needs, but production beyond 2005 required extensive modifications to meet more stringent environmental standards. To meet these environmental standards, a significant part of the project cost involves installation of advanced control equipment to significantly reduce emission rates and improve environmental performance. This investment will both extend the station's operating life to 2030 and help the Corporation achieve important environmental goals.

A substantial benefit of the refurbishment project was to have been derived from use of lower cost Orimulsion® fuel supplied by Bitor America Corporation, a wholly-owned subsidiary of Petroleos de Venezuela ("PDVSA"), the Venezuelan state oil company. An unexpected supply problem has necessitated legal action to protect that benefit. In February 2004, NB Power Corporation filed a statement of claim against Bitor America and PDVSA, to compel execution of the fuel supply agreement or payment of damages. Efforts are underway to re-establish negotiations with PDVSA.

Meanwhile, Coleson Cove is projected to burn heavy fuel oil, with the expectation of switching to Orimulsion® or another lower cost fuel solution in the medium term. Switching may require development of a new fuel delivery system.

The Generation business unit is working closely with the International Brotherhood of Electrical Workers Local 37 to complete negotiations of a new labour agreement to build on the mutual success of the current agreement that expires on December 31, 2004.

public distinguished by frankness on business issues. Combined, these elements comprise a

January 14, 2004
NB Power records second all-time peak electricity demand in two weeks

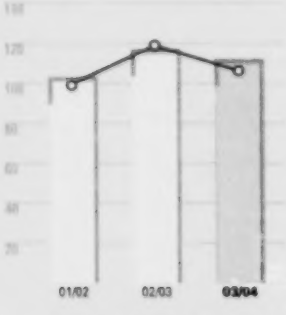
January 16, 2004
NB Power records third all-time peak electricity demand in two weeks

The CANDU 6 – 635 MW unit at Point Lepreau generates low-cost electricity, supplying approximately 25 percent of in-province energy. Generation from the station is important to the Corporation's economic and environmental performance because it is the lowest variable cost thermal generator on the system and displaces significant amounts of air emissions.

Nuclear

Direct OM&A Costs

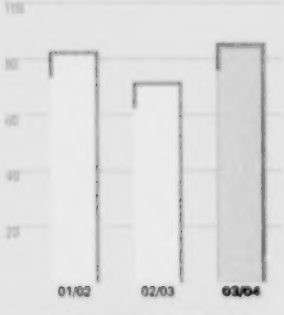
(in millions) ○ target □ actual



Operations, maintenance and administration are tracked against budget estimates to measure effective planning and management.

Capacity Factor

(fiscal year)



Gross Capacity (MWh) is the amount of gross generation that the unit produced in the period.

Lost-time Accidents

(number of accidents)

Lost-time accidents are monitored to measure effectiveness of the station's safety programs and strength of the safety culture.

dedication to operational excellence, commercial viability, and greater transparency and accountability.

January 30, 2004
Provincial government enlists Dr. Robin Jeffrey to conduct assessment of Point Lepreau refurbishment project

Our Year in Focus

The Point Lepreau Generating Station ("PLGS") experienced its best year since 1994/95. The station's capacity factor was 85.6 percent, and its output represented 25 percent of in-province generation. This strong performance was the combined result of no unplanned shutdowns and successfully completing the planned maintenance outage in 34 days, including additional work identified as part of the outage inspection program.

This enabled the business unit to exceed its budgeted revenue forecast, although operation, maintenance and administration expenses were over budget due to the expanded scope of outage work and resulting maintenance costs.

Safety is at the core of all activities. The station exceeded one million person-hours without a lost time accident in March 2004 – the third time this milestone has been achieved in the past three years. The business unit's continued focus on procedures and quality methods, supported by the station's safety programs, has contributed to this remarkable success. In order to sustain the station's safety performance, ongoing initiatives support the safety culture including leadership and staff development programs aimed at improving proactive safety behaviours and a methodology to identify safety risks.

The commitment to environmental protection continued, as demonstrated by the station's registered environmental management system complying with the recognized international standard – ISO 14001. A periodic registration audit is planned for 2004. Radiological releases for the station were well below regulatory limits in 2003.

The Environmental Assessment Study Report for expansion of the Solid Radioactive Waste Management Facility was released in 2003 in support of refurbishing Point Lepreau. The report was approved by the Canadian Nuclear Safety Commission ("CNSC") and the New Brunswick Department of Environment and Local Government. A follow-up plan was developed to address the recommendations of the report.

Security has been at a heightened state at the station since September 11, 2001. The CNSC, which regulates Canadian nuclear facilities, specified higher security standards based on assessment studies. These have been implemented accordingly.

Goals

Sustain safety performance

Improved capacity factor through equipment and human performance improvements
- minimize unplanned outages

On-time, on-budget planned outage delivery
- optimize production and spending

Human resource effectiveness
- meet licensed staff requirements
- align and engage all staff to objectives
- implement succession/retention planning

Quality Management System
- design and implement effective processes
- meet regulatory code compliance

Focusing our Energy

In early 2004, the Provincial Government engaged Dr. Robin Jeffrey to provide advice on the refurbishment of the Point Lepreau Generating Station. In his report, Dr Jeffrey makes twelve recommendations to the government and NB Power. His findings positively highlight the Nuclear business unit's approach to project scoping, risk management and regulatory matters. He also recognized the successful condition assessment process, retubing feasibility study, and other activities to define project content.

Dr. Jeffrey endorses NB Power's belief that factors beyond refurbishment economics deserve attention. At the same time, he provided a serious critique of the contracts with Atomic Energy of Canada Limited ("AECL"), which the business unit intends to renegotiate. The Jeffrey report is a significant milestone in the refurbishment decision-making process. The business unit is taking all steps necessary so that the Government of New Brunswick may make a decision in 2004/05.

PLGS is preparing for its World Association of Nuclear Operators ("WANO") peer review scheduled for fall 2004. The station is addressing areas for improvement based on its last WANO review by focusing on improving the material condition of the plant, and continuing its strong emphasis on human performance and adherence to processes and procedures. The preparatory activities will coincide with scheduled maintenance outage activities. The station plans to successfully complete both activities while addressing emergent equipment issues.

The station's commitment to the development and implementation of a quality management system ("QMS") is proceeding according to plan, and will be ready by March 2005. The implementation of a QMS provides a structured quality approach to station operation and is a requirement of the station's license. Once implemented, the system will contribute to overall process effectiveness while meeting Canadian Standards Association standards and WANO performance objectives.

Achieving appropriate staffing levels at Point Lepreau is proceeding as planned, with 44 people taking advantage of the early retirement program. As part of succession-planning initiatives, three new shift supervisors and seven new control room operators were certified during the year. Further to the long-term succession plan, in 2004/05 significant progress will be made towards certifying additional shift supervisors and control room operators. One additional person will be qualified to act as station manager.

As North American companies prepare for an era of greater corporate transparency and accountability,

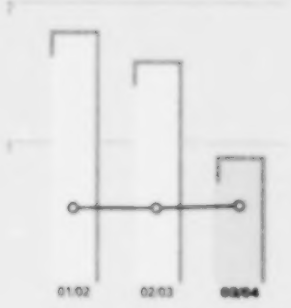
February 25, 2004
NB Power begins legal action to protect Coleson Cove project benefits

Responsible for reliable and safe delivery of electricity to the distribution system network customers and point-to-point transmission customers, Transmission operates and maintains 6,700 km of transmission lines, terminals, radio towers, switchyards and interconnections. The Energy Control Centre is the operational hub of the power system and provides transmission system access via the online Open Access Same-Time Information System ("OASIS").

Transmission

Reliability - SAIDI

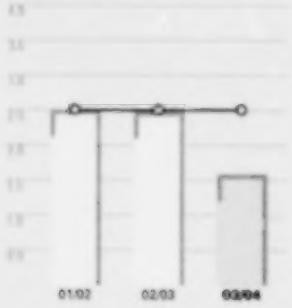
(loss of supply/hours) ○ target □ actual



System Average Interruption Duration Index (SAIDI) is the average total duration of interruptions during the year. (Severe seasonal weather events contributed to interruptions.)

Transmission Faults

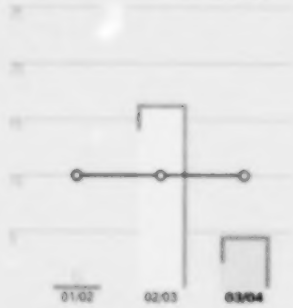
(faults per 100 km) ○ target □ actual



All voltage levels - excluding extreme weather faults.

Safety

(severity) ○ target □ actual



The number of days lost due to injury per 200,000 hours worked.

we are confident in our direction and in our commitment to operate within these principles. These

February 27, 2004
NB Power announces overall 2.5 percent rate increase for April 1, 2004

March 3, 2004
Provincial Government announces appointment of David D. Hay as President and CEO

Our Year in Focus

The Transmission business unit experienced a strong business year with all major operational and financial targets surpassed. While net income was higher than forecast, cost-constraint measures were necessary to address increased operations, maintenance and administration costs. Meanwhile, the positive impact of ongoing system maintenance programs was demonstrated as reliability indicators showed marked improvement over previous years.

To ensure reliability of service and protection of assets, the transmission system is designed and operated to withstand contingencies without resulting in cascading outages while also limiting small customer outages due to problems on individual lines. NB Power's response to the widespread power blackout of August 14, 2003, was evidence that appropriate systems, training and equipment are in place and functioning. A 1,900 MW surge from New York to the New England / Maritimes area resulted in a major frequency increase – the Maritime protection systems operated as designed and the New Brunswick power system successfully compensated for 45 percent of the imbalance, equivalent to only 15 percent of the New England system.

Reliability criteria is measured through a series of performance indicators, the most representative is the number of transmission faults and loss of supply for all transmission voltage levels. Every fault or outage on the transmission system that had or could have affected customers is recorded. During the fiscal year, the average outage rate was 1.8 faults per 100 km compared to the historical outage rate of 2.8. Each fault is examined on the basis of cause and effect to determine the requirement for remedial action.

To further enhance system reliability, the lightning arrester installation program has been completed in the Saint John area. The program's success in reducing system disruptions has led the business unit to study the feasibility of expanding it to other areas in the province. Most of the work on a major terminal expansion in Memramcook was completed during 2003/04. This addition will further increase reliability in southeastern New Brunswick, which is important because the region has experienced significant population and load growth in the past few years.

Safety programs have brought significant improvements to the workplace and resulted in year-over-year reductions in both days lost to injury from 54 to 15 and in lost-time accidents from four to three.

Goals

Business Development
- International power line project
- Increased interconnection capacity

Ensure System Reliability

Enhance Process Efficiency
- Reliability centered maintenance
- Process improvement

Improve Stakeholder Relationships

Transition to New Operating Environment
- Fiscal responsibility and strong business acumen
- Organizational structure to meet business objectives

Focusing our Energy

Transmission is reviewing the business case for the proposed 345 kV tie to the New England market, known as the International Power Line ("IPL"). The necessary approvals are in place in New Brunswick, and NB Power is working with Bangor Hydro to obtain permits on the US side of the border. The Maritime area will face a capacity deficiency in the near future, and Transmission is working with load serving entities within the Maritimes and northern Maine to examine the feasibility of bringing energy south to north, which will be possible with the construction of the IPL.

Following public hearings, the Board of Commissioners of Public Utilities of New Brunswick ("PUB") approved the implementation of an open access transmission tariff that became effective September 2003. This tariff provides non-discriminatory access to generators and consumers, and provides revenues to operate and maintain the transmission system. It is a type of cost-based regulation that allows a rate of return with an incentive for efficiency improvements.

Further to the implementation of the open access transmission tariff in September 2003, the PUB ruled in NB Power's favour regarding a requirement for an open season for third-party access to reservations on the New England interface (the Maine Electric Power Company line). The PUB amended a previous ruling that reservations on this line were not supported by third party energy contracts and should be posted for bid through an open season process. Following a public hearing that included presentations by NB Power and the Transmission business unit, the existing capacity reservation will be honoured. The holder of the transmission reservations, NB Power Generation, will be required to negotiate in good faith with third parties who put forward a business case to use any portion of this capacity.

Transmission continues to enjoy a long-standing, beneficial and mutually-advantageous relationship with the International Brotherhood of Electrical Workers Local 37, which represents a large percentage of employees. There has not been a work stoppage in almost twenty years and the current collective agreement is in place until December 2005.

During the year, senior staff continued their active role on various committees of the North American Electrical Reliability Council and the Northeast Power Co-ordinating Council with particular attention to the August blackout. These bodies establish criteria and guidelines for the operation of the interconnected North American electric power system.

norms will guide us as we prepare for the decisions that lie ahead. Our decision making will

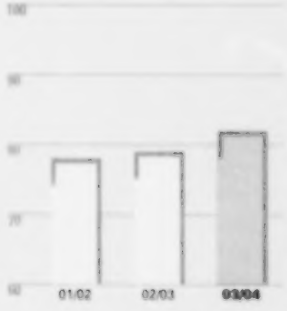
March 23, 2004
New Brunswick government schedules restructuring for October 1, 2004

Serving residential, commercial, wholesale and industrial customers across the province, Customer Service safely and reliably delivers competitively-priced electricity by way of its 20,000 km of distribution lines. It provides valued customer products and services through its regional operations offices, customer contact centres, energy advisors and account managers.

Customer Service

Grade of Service

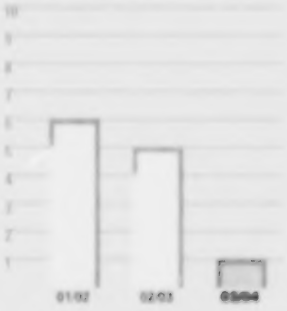
(percentage)



Grade of service is the measurement of the number of calls answered by the Contact Centre within twenty seconds.

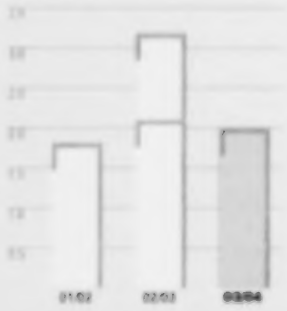
Safety

(number of lost-time accidents)



Reliability – SAIFI

(frequency)



System Average Interruption Frequency Index ("SAIFI") measures the average number of times each customer on the distribution system is without power annually.

balance prudence with vision, and diligence with leadership as we prepare to tackle New Brunswick's

March 25, 2004
NB Power reports to the Standing Committee on Crown Corporations regarding Orimulsion® fuel supply

March 26, 2004
Point Lepreau station records one million person-hours without a lost-time accident

Our Year in Focus

The Customer Service business unit completed an excellent year, as it safely and reliably delivered energy while minding the bottom line. Management recorded a surplus on its operations, maintenance and administration budget, despite an unbudgeted million-dollar weather-related expense.

The overall customer satisfaction level underscores the business unit's success, with quarterly surveys yielding a consistent ranking of eight or better on a scale of one to ten, where ten represents the highest satisfaction level. Additionally, improvements are being steadily recorded in both the frequency and duration of service interruptions. As a result of reliability improvements, the trend of unplanned power outages has been downward versus the seven-year rolling average.

Enhanced customer service initiatives, such as the improved outage management system ("OMS"), were implemented and are proving to be beneficial as business unit personnel utilize the full features of these programs. For example, the OMS technology will allow customers the opportunity to receive up-to-date information on outages, as well as estimated return of service updates based on information entered at the worksite.

Customer Service's commitment to safety was highlighted by the resounding success of its ongoing Joint Health and Safety Committees and the *Safety Takes You Home* campaign, undertaken in co-operation with the International Brotherhood of Electrical Workers Local 37. As a result of these efforts, just one lost-time accident occurred during the year. As the safety record highlights, the positive relationship with the union was again in evidence. There has not been a work stoppage since 1987, and the current collective agreement is in place until December 2005.

In addition, a comprehensive public safety initiative *Look Out for the Lines* including an integrated media campaign, construction and agricultural industry liaisons, and school presentations combined with an award-winning child safety website has led to a dramatic decrease in incidents involving the public. The number of incidents in the past year declined to just 17, compared to 92 two years ago.

Goals

Achieve world class safety performance

Sustain environmental compliance

Deliver top quartile reliability performance

Meet financial targets while maintaining service levels

Improve value in our customers' eyes

Maintain a positive work environment

Focusing our Energy

Establishing and progressing an improvement agenda, such as reducing operational costs, improving work planning effectiveness and better use of technology, provided a framework for ongoing initiatives throughout the business unit. While striving to meet current operational goals, Customer Service continued to prepare for its anticipated future mandate, including earning a commercial return on equity for the shareholder, the Government of New Brunswick.

As an operating company, NB Power Distribution and Customer Service will be responsible for securing adequate energy supplies to meet demand. The necessary financial and organizational changes required by this transition — primarily regulatory engagement, contract governance and system and information technology upgrades—are being addressed by senior members of the management team. Customer Service has been working with the Generation and Nuclear business units to establish power purchase agreements to adequately respond to forecast demand.

Following a public request for proposals, NB Power is in the final stage of negotiations for a power purchase agreement with Eastern Wind Inc. for a 20 MW wind farm on Grand Manan. The proposed wind farm, to be developed, owned and operated by Eastern Wind, will have 11 turbines and could be generating electricity as early as the fall 2005. NB Power Distribution and Customer Service intends to purchase the output and environmental attributes from the project through a twenty-year power purchase agreement as part of a long-term goal to acquire 100 MW from renewable energy projects.

Customer Service has continued its work on the Environmental Management Program, consistent with the ISO 14001 standard. The program obtained positive results from its first external audit in June 2003. Meanwhile, an action plan to address potential issues arising from fluid leaks on equipment located at substation and terminal sites was submitted to the Department of Environment and Local Government. The regulator has accepted the response program.

growing energy needs, and as we define our position within the broader regional energy mix.

March 31, 2004
Hydro stations record strong performance in 2003/04 with a 20 percent increase in output

Corporate Services

Human Resources

Human Resources continued to deliver strategically integrated human resources programs linked to the Corporation's business objectives. Strong performance in employee and public safety was again achieved. For the fourth consecutive year, NB Power was the top performing Canadian electric utility in the *all injury/illness frequency* category. Employees had eight lost-time accidents resulting in 69 days lost, a decrease over the previous year. The "zero accident" safety culture extends to the public, as improvement in minimizing accidental contacts was maintained. From 92 incidents in 2001/02, contacts have subsequently levelled off at below 20 as a result of the *Look Out for the Lines* safety program and related initiatives.

The Employee Wellness Program – with early support, active living and assistance components – has led to improvements in wellness. Average days lost due to illness is 6.1 days per person annually, which is lower than national and provincial averages. While long-term disability costs increased 15 percent regionally, the Corporation's costs have not increased in three years. The successful *Enerflex* program, developed with IBEW, continued to offer flexible benefits tailored to each employee's needs, and benefits costs have increased at only half the rate as other sectors. With multi-year agreements in place, labour relations focused largely on labour/management approaches to early conflict resolution. Leadership development also progressed as training modules for supervisory, planning and budgeting were completed.

During 2003/04, human resource functions were established in the operating companies and Shared Services while a leadership role was maintained at the corporate level to provide overall strategic direction. Each company will have a fully functioning human resources department, and to preserve programs dependent on economies of scale, benefits, compensation, information systems and the Employee and Family Assistance Program will be delivered corporately.

Finance

In addition to providing strategic direction and services in accounting, internal audit, treasury and financial planning, Finance's activities were highlighted by preparations for restructuring. Staff worked with the Provincial Department of Finance to assess power purchase agreements, capital structures and financial forecasts. New tools, processes and standards for business planning and budgeting were introduced, and financial and management reporting capabilities were enhanced in preparation for the business units' transition to operating companies. Forecasting and treasury processes were strengthened and accounting policies were effectively transferred to the new operating companies. Business risk assessments were completed for each business unit and Shared Services, and a new business planning program resulted in improved business plans and forecasts.

Public Affairs

Public relations programs, centred on consultations, information sessions and community liaison committees, supported activities for the Orimulsion Corp, Point Lepreau and International Power Line projects. A program of presentations, at the New England Governors and Eastern Canadian Premiers' meeting, Atlantic Power Summit, regional energy conferences and editorial boards, promoted corporate initiatives. Internally, a communications program, including presentations and newsletters, centred on the *Electricity Act*.

The Corporate website is a valuable communication tool with 12,000 monthly visitors. Full information on the development projects provided stakeholders the opportunity to be fully informed. Kids' Zone, a multi-award winning online interactive program, grew as 3,500 children tested their safety knowledge by completing interactive puzzles, word games and mazes.

Goals

Provide strategic advice and support development of the business units/operating companies

Ensure timely, expert and efficient services

Support executive and senior management

Shared Services

A Shared Services organization was established to support the new operating companies. Existing service areas in computer-aided design, records management, data source, environment, information systems, facilities, real estate, telecommunications, supply and accounts payable were merged. Funded from charges for products and services, Shared Services will enable the operating companies to focus on their core business while preserving economies of scale. Shared Services has signed service level agreements with each of the operating companies. Information Systems concentrated on delivering systems solutions and operating the business computing environment. It completed more than 35 client projects ranging from restructuring's "Finance in Transition" to a preventive maintenance program for Transmission.

Our foundation is strong. Our people stronger. Our energy focused on doing things better.

Financial Review 2003/04

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Management's Discussion and Analysis

Management's Discussion and Analysis reviews financial results from operations for the fiscal year ended March 31, 2004 relative to the previous fiscal year and the Corporation's financial position at March 31, 2004. This section should be read in conjunction with the Consolidated Financial Statements and accompanying notes.

Corporate and Market Restructuring

With proclamation of the *Electricity Act* scheduled for October 1, 2004, the Government of New Brunswick will allow for the creation of a competitive market for wholesale and large industrial electricity consumers and expand opportunities for development of non-utility generation. A new Crown Corporation, the New Brunswick System Operator, will be responsible for market operation. Coincident with electricity sector transformation, New Brunswick Power – a Crown Corporation with vertically integrated generation, transmission and distribution functions – will be restructured as a holding corporation with subsidiary operating companies.

Corporate Restructuring

Under the *Electricity Act*, NB Power will be continued as New Brunswick Power Holding Corporation ("NB Power Holding") and it will establish four subsidiary operating companies:

1. New Brunswick Power Generation Corporation ("NB Power Generation"), with subsidiaries NB Coal Limited ("NB Coal") and New Brunswick Power Coleson Cove Corporation ("NB Power Coleson Cove")
2. New Brunswick Power Nuclear Corporation ("NB Power Nuclear")
3. New Brunswick Power Transmission Corporation ("NB Power Transmission")
4. New Brunswick Power Distribution and Customer Service Corporation ("NB Power Distribution and Customer Service")

The new operating companies will be expected to manage their revenues and costs, achieve targeted returns, make dividend and special payments in-lieu-of income and capital taxes, and eventually borrow without a provincial guarantee (excluding NB Power Nuclear).

NB Power Holding, comprised of the common president and chief executive officer for the operating companies as well as divisions for finance, legal and public affairs, will facilitate interaction with the shareholder, the Government of New Brunswick. Within NB Power Holding, a new Shared Services organization will provide common business, environment, human resources and information system services to the operating companies on a cost recovery basis.

The *Electricity Act* also provides the Government of New Brunswick with the authority to:

- sell all or part of the Coleson Cove Generating Station or enter into an agreement including a trust, lease, partnership, joint venture or operating agreement
- enter into an arrangement including a trust, lease, partnership, joint venture or operating agreement with respect to the Point Lepreau Generating Station
- effect the transferring of officers, employees, assets, liabilities, rights and obligations of NB Power to NB Power Holding and the operating companies (any assets, liabilities, rights and obligations transfers will be completed at book value)

Market Restructuring

The Government of New Brunswick's *New Brunswick Energy Policy 2001-2010* has directed a managed restructuring of the electricity sector beginning with the introduction of competition for existing wholesale and large industrial customers and allowing for greater non-utility generation. A multi-stakeholder Market Design Committee has developed a market structure and operating rules.

The *Electricity Act* was introduced to the Legislative Assembly in January 2003 specifying electricity sector restructuring and the reorganization of NB Power. Under the *Electricity Act*, a bilateral market will be created in which eligible customers may contract with generators or suppliers. The eligible customers include existing wholesale municipal energy companies (Saint John and Edmundston) and large industrial customers served from the transmission system.

NB Power Distribution and Customer Service has been designated as the standard service provider and will be supplied electricity through long-term power purchase agreements with NB Power Generation, NB Power Coleson Cove, and NB Power Nuclear. Customers who are not eligible or who decide not to enter the market are entitled to a standard service consistent with service provided by NB Power pre-October 1, 2004. As generating assets retire or additional supply is required, the standard service supplier will procure supply through the competitive market. For market participants that purchase electricity other than from NB Power Distribution and Customer Service, the Public Utilities Board will determine an exit fee so as not to financially burden remaining customers.

The *Electricity Act* creates two other Crown Corporations necessary for market and corporate restructuring:

1. The New Brunswick System Operator will be an independent, not-for-profit Crown Corporation that directs the operation of the transmission system and administers the Open Access Transmission Tariff.

2. The New Brunswick Electric Finance Corporation will assume NB Power's existing debt and provide financing as required by the new operating companies until such time as they can borrow on their own.

Business Development

NB Power's business development plan is designed to ensure the availability of reliable power, meet evolving environmental standards, and maintain stable and competitive power rates that support economic growth. Investment analysis has identified development projects that will meet these goals. The following projects are at various stages of development or awaiting approval from the Board of Directors and the Government of New Brunswick.

Coleson Cove Generating Station Refurbishment

The Coleson Cove Generating Station is a three unit 998 MW net heavy fuel oil facility. Generation from the station, the largest in the province, is required to meet future demand and investment was necessary to meet more stringent environmental standards. The most significant portion of investment in the station is the installation of advanced control equipment to significantly reduce sulphur dioxide, nitrogen oxide and particulate emission rates. With the completion of the refurbishment in January 2005, the station's operating life will be extended to 2030.

The project included conversion of the station with the primary intended fuel source being Orimulsion®. As the fuel supply agreement was developed, however, subsequent uncertainties arose. In February 2004, to protect the benefits of the fuel supply agreement for the station, NB Power filed a statement of claim against Bitor America Corporation and Petroleos de Venezuela ("PDVSA"), the Orimulsion® fuel supplier, for breach of contract. While efforts are underway to re-establish negotiations with PDVSA, the station is projected to burn heavy fuel oil in the near term with the expectation of switching to Orimulsion® or another lower cost fuel in the medium term. Fuel switching may require development of a new fuel handling system and alternative delivery options are being considered.

Point Lepreau Nuclear Generating Station Refurbishment

NB Power is proposing to refurbish the Point Lepreau Generating Station during an 18-month outage scheduled to begin in April 2008. The $940 million project would replace all 380 fuel channel and calandria tube assemblies and feeders. Other equipment replacements, inspections and upgrades would be undertaken. Successfully completing the project would allow the station to operate for an additional 25 years. Expenditures to March 31, 2004 were $71 million, primarily for feasibility studies, engineering, analysis and project planning.

In September 2002, the PUB recommended to NB Power's Board of Directors that the project, as presented, not proceed because of a lack of significant financial advantage over natural gas, a potential source of generation. While recognizing the basis for the recommendation, the Board of Directors believes other factors, outside the PUB's review scope, will be important inputs to a project decision. Of particular importance will be the environmental benefits from continued operation of the station and uncertainty in pricing and supply of natural gas.

The project and changes to the solid radioactive waste management facility were registered under the *Canadian Environmental Assessment Act* and provincial Environmental Impact Assessment Regulation and subsequently received positive decisions from both levels of government.

In 2003/04, the Government of New Brunswick solicited a third-party review of the refurbishment project. Dr. Robin Jeffrey, former president of Bruce Power and former chair of British Energy, released his report in April 2004. The Jeffrey Report concluded that refurbishment offered no economic advantage over alternative supply options. It was critical of the project contracts, citing a non-competitive negotiation that resulted in disproportionate financial risk to NB Power.

At the same time, the Jeffrey Report endorsed the project's condition assessment process, risk mitigation strategy, communication with the CNSC on regulatory issues, early environmental approvals, integrated schedule, detailed implementation plan, and progress reporting. It made an important statement of confidence by concluding that the refurbishment would not suffer massive cost and schedule overruns experienced on Pickering 'A' – Unit 4.

NB Power subsequently committed to renegotiate the project contracts with Atomic Energy of Canada Limited. The Provincial Government is expected to make a decision on refurbishment during 2004/05.

International Power Line Project

NB Power has identified the 345 kV International Power Line Project ("IPL") as the primary means to increase security of supply and enhance the reliable and efficient operation of the transmission grid. The project is also aligned with the Provincial Government's *Energy Policy 2001-2010*.

The transmission line, which will extend from the Point Lepreau terminal to Orrington, Maine, will significantly increase firm interconnection capacity (300 MW export/400 MW import) and improve system reliability and efficiency through lower transmission losses. While the project began as an integrated NB Power initiative, there are benefits for each operating company and it will foster development of the regional electricity market by providing generators with new opportunities for sales and eligible customers with alternative sources of supply.

On the Canadian side of the project, the National Energy Board has issued a conditional Certificate of Public Convenience and Necessity to construct, operate and maintain the power line. On the American side, NB Power is working with Bangor Hydro-Electric Co. to secure the permits required to construct and maintain the line in Maine. Upon receipt of all necessary permits, the recovery of costs through the tariff needs to be resolved.

Renewable Energy

Following a public request for proposals, NB Power is in the final stage of negotiations for a power purchase agreement with Eastern Wind Inc. for a 20 MW wind farm on Grand Manan. The proposed wind farm, to be developed, owned and operated by Eastern Wind, will have 11 turbines and could be generating electricity as early as the fall 2005. NB Power Distribution and Customer Service intends to purchase the output and environmental attributes from the project through a twenty-year power purchase agreement as part of a long term objective to acquire 100 MW from renewable energy projects.

Financial Performance

in millions

	2003/04	2002/03	2001/02
Net income (loss)	$ (18)	$ (77)	$ 19
Operating cash flow	$ 256	$ 139	$ 234
Free cash inflow (outflow)	$ (376)	$ (86)	$ 64
Reduction (increase) in net debt	$ (321)	$ (149)	$ 81

Financial Ratios and Percentages

	2003/04	2002/03	2001/02
Operating margin	14%	12%	19%
Operating cash flow / capital expenditures	0.52x	0.66x	1.73x
Operating cash flow / total debt	0.08x	0.05x	0.08x
Percent of debt in capital structure	106%	106%	104%
Interest coverage ratio	0.88x	0.88x	1.06x

NB Power recorded a net loss of $18 million in 2003/04. A non-recurring charge against net income of $44 million for write-off of costs associated with a fuel handling system, intended for delivery of Orimulsion® to the Coleson Cove Generating Station, set back an otherwise significant turnaround in financial performance attributable to improved margins on in-province and out-of-province energy sales. The income from operations before the write-off was $26 million compared with a net loss from operations of $77 million the previous year.

The most significant factor contributing to the change in year-over-year operating income was a $96 million increase in the gross margin on in-province and out-of-province sales that increased from $692 million in 2002/03 to $788 million in 2003/04. Energy costs decreased significantly due to a 56 percent increase in hydro generation based on the long-term average and a 20 percent increase in year-over-year nuclear generation. Greater availability of these low-cost generation sources reduced reliance on more expensive generation sources. Other factors contributing to the year-over-year increase in income were:

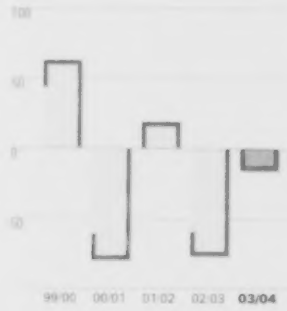
- continued improvement of the Canadian dollar lowered fuel costs
- greater hydro and nuclear generation allowed for more surplus energy to be exported thereby increasing out-of-province revenue and out-of-province gross margin
- higher in-province revenue due to the 2.6 percent average rate increase implemented April 1, 2003 and a slight growth in sales volume
- unlike the previous fiscal year, there was no interruption in the supply of lower-cost Orimulsion® at the Dalhousie Generating Station
- lower year-over-year financial charges primarily due to refinancing at reduced interest rates

There were other factors that offset the impact of these positive developments:

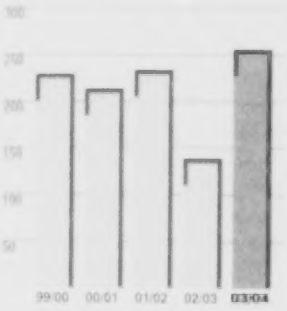
- in-province and out-of-province gross margins were lower because of increases in thermal fuel prices
- operations, maintenance and administration costs were higher as a result of increased pension costs due to a negative return in the prior year and a voluntary early retirement program offered in 2003/04
- a $44 million write-off of costs associated with the Orimulsion® fuel handling system as the availability of Orimulsion® is currently uncertain

Operating cash flow in 2003/04 increased by $117 million to $256 million primarily due to a reduced net loss year-over-year.

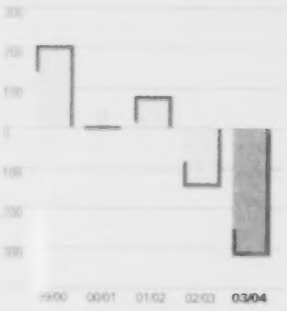
Net Income (Loss)



Operating Cash Flow



Reduction in Debt



The Corporation's debt increased by $321 million in 2003/04 due to the capital spending on the Coleson Cove Generating Station Refurbishment Project and funding of the used nuclear fuel management and nuclear decommissioning liabilities.

Financial and Operating Statistics

Financial and Operating Performance

	2003/04	2002/03	2001/02
Hydro net generation as percentage of long-term average	**120%**	76.8%	71.3%
Point Lepreau Generating Station net capacity factor	**85.6%**	71.6%	82.5%
Canadian dollar at March 31st ($US equivalent)	**$ 0.763**	$ 0.681	$ 0.628
Average heavy fuel oil price ($US/bbl Platt's NY 3%)	**$ 23.23**	$ 23.49	$ 16.72
Average natural gas price ($US/mmBTU)	**$ 5.44**	$ 4.22	$ 3.09
Average New England on-peak prices ($US/MWH)	**$ 48.58***	$ 51.29	$ 41.26

*net of congestion and marginal losses

The following factors have a significant impact on financial performance because they affect the cost of generation or price competitiveness in export markets:

- **Hydro Generation** – As NB Power's lowest cost fuel to generate electricity, hydro accounts for approximately 25 percent of total production. When flows are below anticipated levels, other more expensive fuels are used to account for the shortfall thereby increasing generation costs. For example, a change of 1 percent in hydro performance increases or decreases costs by approximately $1 million.

- **Nuclear Generation** – Supplying 25 percent of New Brunswick's energy requirements, consistent performance from the Point Lepreau Generating Station is essential to positive financial performance. Increased maintenance challenges, particularly related to the aging of the "feeder" pipes that transport pressurized heavy water from the fuel channels to the boilers, mean a continuing possibility of unplanned outages. Planned maintenance outages have been scheduled annually with increased emphasis on feeder inspections. Given that a change of 1 percent in nuclear capacity increases or decreases costs by approximately $3 million, nuclear performance continues to be an on going business risk facing the Corporation. Financial performance will remain vulnerable until the station is refurbished, currently proposed for April 2008, or decommissioned.

- **Exchange Rates** – NB Power is exposed to foreign exchange risk through its hedged fuel and purchased power priced in US dollars that exceeds revenue received in US dollars. Accordingly, the Corporation hedges a significant portion of the net known and forecasted US dollar requirements, though a change in foreign exchange rates will affect financial performance due to non-hedged transactions.

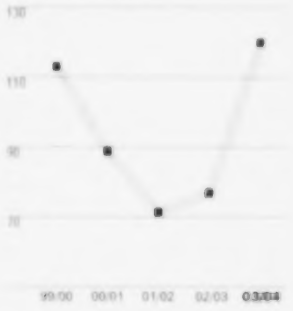
- **Oil Prices** – Heavy fuel oil represents over 50 percent of fuel costs and it is also used as the replacement fuel when low cost nuclear and hydro generation is unavailable. To minimize fuel price exposure, the Corporation hedges a significant portion of heavy fuel oil requirements for in-province load and firm export sales.

- **Natural Gas Prices** – One of NB Power's major power purchase contracts is tied to natural gas prices and price fluctuations will affect the cost to supply in-province load. The Corporation hedges a significant percentage of this exposure.

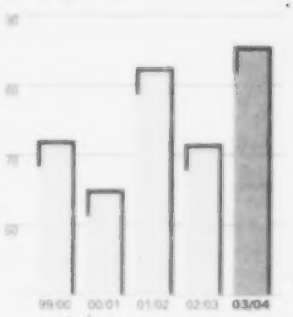
- **New England Market Prices** – In 2002/03, the New England market implemented rules whereby the marginal price of electricity is calculated at individual locations on the New England transmission system in order to provide market signals to build new transmission or locate generation closer to loads. As a result, prices now reflect congestion costs and transmission losses and have reduced NB Power's average New England on-peak prices by more than five percent year-over-year.

Further information on risk mitigation may be found in the Risk Management section on page 33.

Hydro Net Generation



Point Lepreau
Net Capacity Factor



Heavy Fuel Oil Price

Revenue Overview

in millions

	2003/04	2002/03	2001/02
Sale of power			
In-province	**$ 1,009**	$ 993	$ 919
Out-of-province	**246**	227	359
Miscellaneous	**56**	53	41
Total revenues	**$ 1,311**	$ 1,273	$ 1,319
Percent increase year over year	**3%**	(3.5)%	8%

Total revenue was $1,311 billion in 2003/04 which is an increase of $38 million or 3 percent from 2002/03.

In-Province Revenue

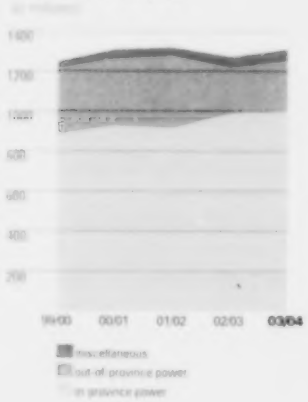
in millions

	2003/04	2002/03	2001/02
Residential	**$ 409**	$ 393	$ 358
Industrial	**306**	316	294
General service	**196**	190	180
Wholesale	**80**	77	70
Street lights	**18**	17	$ 17
Total	**$ 1,009**	**$ 993**	**$ 919**
GWh	**14,648**	14,540	13,795

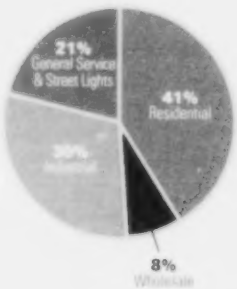
In-province revenue was $1,009 million in 2003/04 representing an increase of $16 million or 1.6 percent from 2002/03. The main contributors to the year-over-year variances were:

- a 2.6 percent average rate increase implemented April 1, 2003 increased revenue by $24 million
- higher sales volume increased revenue by $7 million
- certain industrial sector contract price decreases, which are variable and linked to fuel costs, resulted in a year-over-year decrease in revenue of $15 million

Revenue Analysis



In-Province Revenue



Out-of-Province Revenue

in millions

	2003/04	2002/03	2001/02
Revenue	$ 206	$ 227	$ 359
GWh	3,922	3,069	5,264

Out-of-province revenue increased $19 million or 8.4 percent from 2002/03. The main contributors to the year-over-year variance were:

- greater hydro and nuclear generation increased the availability of surplus energy for export resulting in a 28 percent increase in export sales volume and a $35 million increase in revenue
- the introduction of locational marginal pricing in New England resulted in a lower year-over-year US market price. Exports to Canadian utilities increased as Canadian off-peak prices were higher than US off-peak prices. Lower overall market prices along with a stronger Canadian dollar resulted in a lower average price for export energy thereby offsetting the impact of the sales volume increase by $16 million.

Miscellaneous Revenue

Miscellaneous revenue from water heater rentals, transmission tariffs, ancillary services and the sale of steam and generation by-products increased by $3 million or 5.7 percent to $56 million in 2003/04. The increase is primarily due to revenue from higher steam sales and assisting neighbouring utilities in Nova Scotia and Maine with storm responses.

Expenses

Expenses Overview

in millions

	2003/04		2002/03		2001/02	
	$	%	$	%	$	%
Fuel and purchased power	$ 467	36	$ 528	39	$ 492	38
OM&A	388	29	364	27	339	26
Amortization and decommissioning	213	16	216	16	213	16
Write-off of fuel handling system costs	44	3	—	—	—	—
Finance charges	217	16	242	18	256	20
Total	**$ 1,329**	**100**	$ 1,350	100	$ 1,300	100

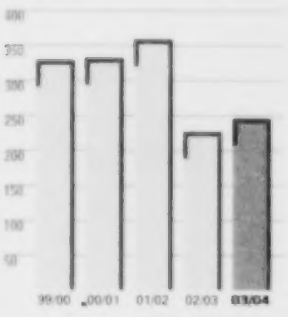
Total expenses decreased 1.6 percent to $1.329 billion in 2003/04. This $21 million decrease resulted from a number of factors:

- $61 million decrease in fuel and purchased power costs
- $25 million decrease in finance charges
- $3 million decrease in amortization and decommissioning costs

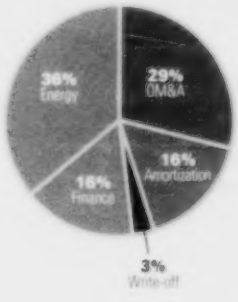
Offsetting these decreases were two factors:

- $44 million write-off of costs associated with expenditures on the Orimulsion® fuel handling system for the Coleson Cove Generating Station Refurbishment Project
- $24 million increase in operations, maintenance and administration costs primarily because of increased pension expense due to market performance below expected level

Out-of-Province Revenue



Total Expenses



Fuel and Purchased Power

in millions

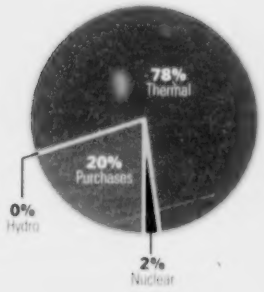
	2003/04		2002/03		2001/02	
	$	%	$	%	$	%
Hydro	$ 0	0	$ 0	0	$ 0	0
Nuclear	10	2	7	1	8	2
Thermal	364	78	409	78	381	77
Purchases	93	20	112	21	103	21
Total	**$ 467**	**100**	$ 528	100	$ 492	100

The cost of fuel and purchased power was $467 million in 2003/04, a decrease of $61 million or 11.6 percent from 2002/03. Heavy fuel oil represented 42 percent of this spending while purchased power from utilities in Nova Scotia, Maine, Quebec and New Brunswick accounted for 20 percent. The year-over-year decrease in fuel and purchased power costs was attributable to the following factors:

- hydro flows were 120 percent of the long-term average compared to 77 percent in 2002/03 resulting in a significant percent increase in total hydro generation over the previous year. The availability of this low-cost energy decreased generation costs by $55 million.
- Point Lepreau's net capacity factor was 85.6 percent during 2003/04 representing an increase of 20 percent over 2002/03. Increased availability of this low-cost energy lowered generation costs by $37 million.
- improvement in the performance of the Canadian dollar, offset by the impact of foreign exchange hedges, decreased costs by $22 million
- generation costs were $16 million lower due to greater use of coal and Orimulsion® in place of heavy fuel oil (there was a period during 2002/03 when Orimulsion® was unavailable necessitating use of more expensive heavy fuel oil)

These decreases were offset by year-over-year increases in other costs, primarily a 28 percent increase in the export load which increased costs by $41 million and an overall increase in fuel prices, net of the hedging impact, which increased total fuel and purchased power costs by $28 million.

Energy Costs



Operations, Maintenance and Administration Expenses

in millions

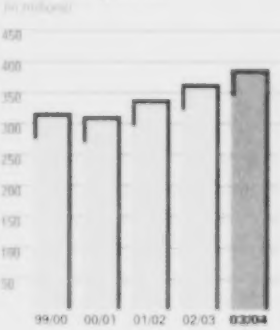
	2003/04	2002/03	2001/02
OM&A expenses	$ 388	$ 364	$ 339

Operations, maintenance and administration costs were $388 million in 2003/04, an increase of $24 million or 6.6 percent from 2002/03. This was mainly due to the following increases:

- pension costs were $19 million higher due to amortization of losses from a negative asset return in 2002/03
- early retirement costs were $7 million higher due to a voluntary early retirement program
- labour and benefits costs were $9 million higher from contract and merit increases
- station outage and maintenance costs were $3 million higher because of work at Dalhousie, Coleson Cove, Courtenay Bay, and several hydro generating stations
- tax costs were $2 million higher due to increased industrial property tax assessments

These increases were offset by a $15 million reduction in costs due to the Point Lepreau planned maintenance outage in 2003/04 being shorter and less costly than the outage in 2002/03.

OM&A Expenses

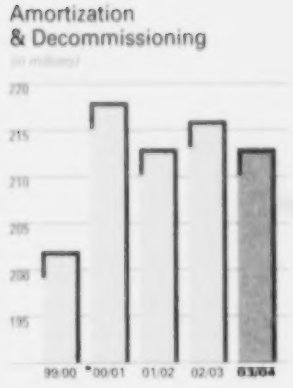


Amortization and Decommissioning

in millions

	2003/04	2002/03	2001/02
Amortization and Decommissioning	**$ 213**	$ 216	$ 213

Amortization and decommissioning costs were $213 million in 2003/04, a decrease of $3 million or 1.4 percent from 2002/03. In the previous year, an environmental liability of $11 million for treating acidic water drainage from an inactive mine was charged to decommissioning expense by NB Coal Limited. Amortization and decommissioning charges for other items increased by $8 million year-over-year due to the impact of capital additions.



Write-off of Fuel Handling System Costs

in millions

	2003/04	2002/03	2001/02
Write-off of fuel handling system costs	**$ 44**	—	—

As part of the Coleson Cove Generating Station refurbishment, the station is being converted to burn Orimulsion®. The project included development and construction of facilities capable of handling the new fuel. The Corporation signed a memorandum of understanding for the development of these facilities and the site chosen required investment in a fixed jetty, storage tanks, pumping and piping to the existing pipelines used to transport heavy oil to the generating station.

Expenditures on the fuel delivery system to March 31, 2004 amounted to $47 million ($1 million – 2003). The availability of Orimulsion® is uncertain and the means chosen to deliver the fuel will be determined in conjunction with the pending resolution of the fuel supply contracts. Of the $47 million, $44 million is not expected to provide future service value and has been expensed in 2003/04. Approximately $3 million remains as construction-in-progress pending resolution of the supply negotiations and evaluation of fuel delivery options.

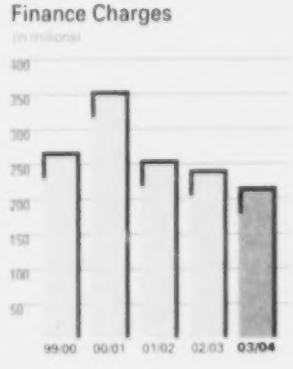
Finance Charges

in millions

	2003/04	2002/03	2001/02
Finance Charges	**$ 217**	$ 242	$ 256

Finance charges decreased $25 million or 10.3 percent to $217 million in 2003/04 due to the following factors:

- debt issues were refinanced at lower interest rates decreasing costs by $22 million
- earnings from the sinking and trust funds increased by $3 million



Liquidity and Capital Resources

Capital Expenditures

in millions

	2003/04	2002/03	2001/02
Capital expenditures	$ 497	$ 212	$ 135

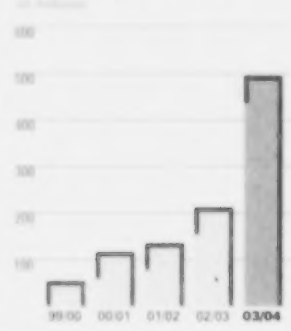
Capital expenditures, net of proceeds on disposal and customer contributions, were $497 million in 2003/04, an increase of $285 million or 134 percent from 2002/03.

The primary reason for the increase was spending on the Coleson Cove Generating Station Refurbishment Project as spending in 2003/04 was $405 million versus $99 million the previous year. To date, $511 million has been spent, including expenditures for the fuel handling system. After the write-off on the fuel handling system costs noted above, the project cost incurred to date is $467 million. Management's forecasted total construction cost for the project is $672 million, which may increase pending resolution of the supply contract negotiations for Orimulsion® fuel and evaluation of fuel delivery options. In addition, $44 million has been written off (See Note 4).

Other capital expenditures include $11 million on pre-engineering analysis and work required in preparation for refurbishment of the Point Lepreau Generating Station. Total project expenditures to March 31, 2004 were $71 million, primarily for feasibility studies, engineering, analysis and project planning.

Transmission and distribution infrastructure upgrade projects were also completed during the year.

Capital Expenditures



Operating Cash Flow

in millions

	2003/04	2002/03	2001/02
Operating cash flow	$ 256	$ 139	$ 234

Operating cash flow was $256 million in 2003/04, an increase of $117 million from 2002/03. This resulted primarily from the year-over-year lower net loss.

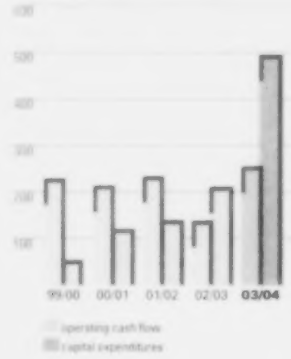
Free Cash Inflow (Outflow)

in millions

	2003/04	2002/03	2001/02
Operating cash flow	$ 256	$ 139	$ 234
Capital expenditures	(504)	(217)	(140)
Proceeds on disposal and customer contributions	7	5	5
Decrease (increase) in working capital	29	14	(35)
Nuclear decommissioning and used fuel management funds, installments and earnings	(156)	(20)	–
Other	(8)	(7)	–
Free cash inflow (outflow)	**$ (376)**	$ (86)	$ 64

Free cash outflow was $376 million in 2003/04, a decrease of $290 million from 2002/03. The reasons for the decline were higher capital spending and funding of the used nuclear fuel management and nuclear decommissioning liabilities offset by a reduced net loss.

Components of Free Cash Flow



Debt

in millions

	2003/04	2002/03	2001/02
Free cash inflow (outflow)	$ (376)	$ (86)	$ 64
Foreign exchange adjustment	1	3	(4)
Deferred debt costs	(1)	(21)	(19)
Change in cash	55	(45)	40
Reduction (increase) in net debt	**$ (321)**	**$ (149)**	**$ 81**

Net debt increased by $321 million in 2003/04 compared to an increase in 2002/03 of $149 million. This was mainly due to the financing of the capital spending on the Coleson Cove Generating Station Refurbishment Project and funding of the used nuclear fuel management and nuclear decommissioning liabilities.

Total Net Debt

in millions

	2003/04	2002/03	2001/02
Long-term debt, net of sinking fund investments	$ 2,883	$ 2,744	$ 2,890
Short-term indebtedness	477	295	—
Total net debt	**$ 3,360**	**$ 3,039**	**$ 2,890**

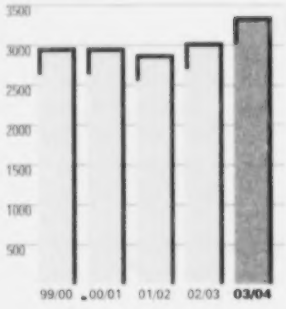
The increase in short-term debt is primarily due to the funding of the Coleson Cove Refurbishment Project. The project is mainly being funded by short-term debt due to the favorable interest rates currently available and will be converted to long-term debt.

NB Power accesses capital markets through debt issued by the Province of New Brunswick. One debt issue, totalling $100 million, with a coupon interest rate of 7.5 percent matured in 2003/04. New debt issues totalling $297 million with an average effective interest rate of 3.75 percent were issued during the year.

The Corporation's debt levels will increase in future years if refurbishment of the Point Lepreau Generating Station and construction of the International Power Line proceed. The level of short-term borrowings fluctuates depending on the timing of debt maturities and capital investment requirements. The Corporation borrows funds for temporary purposes from the Province of New Brunswick and has bank lines of credit available for short-term borrowings. Working capital is financed through operating cash flow.

Total Net Debt

(in millions)



Significant Accounting Estimates

Amortization

NB Power has an Amortization Review Committee that reviews the service life of major asset categories every five years or more frequently as circumstances warrant. These reviews include physical inspection of the asset, review of maintenance and retirement history, technological obsolescence and industry practices. A report recommending changes to asset service lives is presented to the Audit Committee annually for approval. The current estimated useful lives of assets is in Note 1(b) of the Financial Statements.

The estimated service life of the Coleson Cove Generating Station will be extended by 25 years when the refurbishment project is completed. If the Point Lepreau Generating Station Refurbishment Project proceeds, it is expected that the useful life of the station will be extended by 25 years.

The amortization expense for the year ended March 31, 2004 is $196 million (2003 – $190 million).

Plant Decommissioning and Used Nuclear Fuel Management

Effective April 1, 2002, NB Power adopted the Canadian Institute of Chartered Accountants ("CICA") standard for asset retirement obligations requiring recognition of the net present value of these liabilities when incurred. Adoption of the new standard had an immaterial impact on net income in 2003. The key assumptions on which the liabilities are based are disclosed in Note 12 of the Financial Statements and these assumptions are updated on a periodic basis. If the Point Lepreau Generating Station Refurbishment Project proceeds, the used nuclear fuel liability will increase because more fuel will be consumed and the decommissioning liability will decrease as the time period to decommission will be longer.

The Government of Canada enacted the *Nuclear Fuel Waste Act* in 2002 creating the Nuclear Waste Management Organization ("NWMO"). The organization's mandate is to recommend to the federal government the best approach for management of nuclear fuel waste by November 2005. The approach selected by the NWMO could impact the liability currently recorded in the Financial Statements for used nuclear fuel.

The thermal and nuclear decommissioning expense for the year ended March 31, 2004 is $17 million (2003 – $26 million).

Future Employee Benefits

Employees of NB Power belong to the Province of New Brunswick's superannuation defined benefit pension plan (see Note 1(j) and Note 9 of the Financial Statements). The Corporation also has a retirement allowance program and at times has early retirement costs. The accounting policies for the retirement allowance program and early retirement costs are described in Note 1(k) and Note 1(l) of the Financial Statements. Further information on the retirement allowance program are described in Note 13.

Effective March 31, 2004, the Corporation adopted the new CICA disclosure requirements for future employee benefits.

Unbilled Revenue

As NB Power bills residential and general service customers on a cyclical basis, the revenue for energy supplied but not billed at the end of each fiscal period is estimated and recorded. This estimate is based on actual substation readings and actual average rates. The revenue accrued at March 31, 2004 was $32 million (2003 – $30 million).

Overhead to Capital

As described in Note 1(b) of the Financial Statements, NB Power adds an overhead to capital projects for indirect charges for administration and other expenses. The rates used were developed in an overhead study completed in 2000. The amount of overhead charged to capital in the year ended March 31, 2004 is $12 million (2003 – $12 million).

Risk Management

NB Power has established a process for managing risk in the following areas:

Financial Hedging

The Financial Hedging Committee is responsible for monitoring and controlling the financial market risk exposure of NB Power to ensure the predictability and sustainability of cash flow and net income. The Committee is responsible to monitor the following risks:

- **Fuel Price Risk** – NB Power has net exposure to fuel prices, notably heavy fuel oil and natural gas. To reduce exposure, hedging occurs within predefined tolerance levels for predicted in-province and export requirements.

- **Foreign Exchange Risk** – NB Power has a net exposure to the Canadian dollar versus the US dollar. It is sensitive to debt priced in US dollars, to fuel and purchased power being principally priced in US dollars, and to revenue received in US dollars. Hedging occurs within predefined tolerance levels for both known and forecasted US dollars requirements. A strategy to hedge the US debt was adopted in 2002 and as of March 31, 2004, all US debt was hedged.

- **Interest Rate Risk** – A predetermined percentage of predicted refinancing exposures is hedged to reduce the impact of adverse rate changes.

in millions

Economic/Operational Variable	Sensitivity/ Variance (+/-)	Net Income Impact 2003/04
Canadian Dollar (US$)	US $0.01	$ 1*
Oil (US$/bbl)	US $1/bbl	$ 3*
Natural Gas (US$/mmBTU)	US $0.25/mm BTU	$ 0*
Energy Exports (US$/MWH)	US $1/MWH	$ 4*

*Net income impact after hedging.

Business Risk Management Program

NB Power engages Ernst & Young LLP to assist in ongoing risk assessments and implementing risk control processes. Operational risk refreshes were completed in the business units in 2003/04 as well as in Shared Services and were reported to the Audit Committee of the Board of Directors.

Safety

NB Power's objective is to maximize healthy and safe working conditions for employees and contractors and to promote electrical safety to the public. Audits to measure safety initiatives are conducted regularly as are New Brunswick Workplace Health and Safety Compensation Commission risk management audits. Regular reports on the health and safety compliance management system and the public safety program are made to the Human Resource and Corporate Governance Committee of the Board of Directors which ensures that due diligence is exercised for public and employee health and safety.

Environment

Each business unit is responsible to integrate NB Power's Environmental Policy with their operations. Shared Services assists the business units in:

- integrating environmental management with operations and project planning
- acquiring regulatory approvals for facilities and new construction
- monitoring compliance with regulatory approvals and reporting to regulating agencies
- monitoring and providing input on new and revised environmental standards and legislation

The status of the programs in place to manage environmental risks, including current and future issues, are reported to the Environment Committee of the Board of Directors. Through discussions and examinations, external auditors annually assess the completeness, valuation and disclosure of material environmental liabilities and contingencies in the Corporation's financial statements. NB Power publishes an annual *Environmental Performance Report* available at **www.nbpower.com**

Insurance

NB Power maintains insurance policies and coverage limits consistent with North American electric utility industry practices. Coverage relates to nuclear property and liability, conventional property and liability including auto, environmental, marine, and director's and officer's liability. An Insurance Overview report is presented annually to the Audit Committee of the Board of Directors.

Management Report

May 17, 2004

NB Power's financial statements have been prepared by management, who are responsible for the integrity, accuracy and fairness of the information. The accounting principles followed in the financial statements are generally accepted in Canada. The financial information presented throughout the annual report is consistent with the financial statements.

Systems of internal control and supporting procedures are maintained to provide assurance that transactions are authorized, assets are safeguarded and records properly maintained. These controls and procedures include:

- system security and various financial controls
- quality standards in hiring and training of employees
- a code of conduct
- an organizational structure that provides a well defined division of responsibilities
- performance accountability
- communication of policies and guidelines through the Corporation

Internal controls are reviewed and evaluated by audit programs which are subject to scrutiny by external auditors.

The ultimate responsibility for the financial statements rests with the Board of Directors. The Board is assisted in its responsibilities by the Audit Committee which reviews the recommendations of internal and external auditors for improvements in internal control and the action of management to implement such recommendations. In carrying out its duties and responsibilities, the Audit Committee meets regularly with management and with external and internal auditors to review the scope and timing of their respective audits, to review their findings and to satisfy itself that its responsibility has been properly discharged. The Audit Committee reviews the financial statements and recommends them for approval by the Board of Directors.

The Corporation's external auditors, Deloitte & Touche LLP, have conducted an independent examination of the financial statements in accordance with auditing standards generally accepted in Canada, performing such tests and other procedures as they consider necessary to express the opinion in their Auditors' Report. The external auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings as to the integrity of the Corporation's financial reporting and the adequacy of internal control systems.

David D. Hay
President and
Chief Executive Officer

Sharon MacFarlane
Vice President, Finance

Auditors' Report

May 17, 2004

The Honourable Herménégilde Chiasson
Lieutenant-Governor of New Brunswick
Fredericton, New Brunswick

Sir:

We have audited the consolidated balance sheet of New Brunswick Power Corporation as at March 31, 2004 and the consolidated statements of loss and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants
Saint John, NB

Financial Statements

Consolidated Statement of Loss and Deficit

For the year ended March 31, 2004 – in millions

	2004	2003
Revenues		
Sales of power (Note 2)		
In-province	$ 1,009	$ 993
Out-of-province	246	227
Miscellaneous	56	53
	1,311	1,273
Expenses		
Fuel and purchased power	467	528
Operations, maintenance and administration	388	364
Amortization and decommissioning (Note 3)	213	216
Write-off of fuel handling system costs (Note 4)	44	—
	1,112	1,108
Income before finance charges	199	165
Finance charges (Note 5)	217	242
Net Loss for the Year	(18)	(77)
Deficit		
Beginning of Year	(177)	(100)
End of Year	$ (195)	$ (177)

Consolidated Balance Sheet

As at March 31, 2004 – in millions

	2004	2003
Current Assets		
Cash and short-term investments (Note 6)	$ 7	$ 62
Accounts receivable	181	188
Materials, supplies and fuel	96	98
Prepaid expenses	3	7
	287	355
Property, Plant and Equipment (Note 7)		
Land, buildings, plant and equipment, at cost	6,016	5,607
Less: accumulated amortization	2,870	2,725
	3,146	2,882
Long-term Assets		
Nuclear decommissioning and used fuel management funds (Note 8)	176	20
Deferred Charges		
Deferred debt costs, less amounts amortized	50	56
Deferred pension benefit (Note 9)	67	68
Other deferred charges	3	6
	120	130
	$ 3,729	$ 3,387

On behalf of New Brunswick Power Corporation

Leon R. Furlong
Chair

David D. Hay
President and CEO

Consolidated Balance Sheet

As at March 31, 2004 – in millions

	2004	2003
Current Liabilities		
Short-term indebtedness (Note 11)	$ 477	$ 295
Accounts payable and accruals	201	184
Accrued interest	70	71
Current portion of long-term debt (Note 10)	69	132
	817	682
Long-term Debt (Note 10)		
Debentures and other loans	3,217	2,999
Less: sinking funds	403	387
	2,814	2,612
Deferred Liabilities		
Plant decommissioning and used nuclear fuel management (Note 12)	240	225
Other (Note 13)	53	45
	293	270
Deficit		
Deficit	(195)	(177)
	$ 3,729	$ 3,387

Consolidated Statement of Cash Flow

For the year ended March 31, 2004 – in millions

	2004	2003
Net Inflow (Outflow) of Cash Related to the Following Activities:		
Operating		
Net loss for the year	$ (18)	$ (77)
Amounts charged or credited to operations not requiring a current cash payment (Note 14)	274	216
	256	139
Nuclear decommissioning and used fuel management funds installments and earnings	(156)	(20)
Decommissioning liability expenditures	(3)	(1)
Additions to deferred charges	(5)	(6)
Net change in non-cash working capital balances	29	14
	121	126
Investing		
Expenditure on property, plant and equipment	(504)	(217)
Proceeds on disposal and customer contributions	7	5
	(497)	(212)
Financing		
Debt retirements net of sinking fund proceeds	(102)	-
Sinking fund installments and earnings	(55)	(829)
Proceeds from long-term debt obligations	296	(56)
Increase in short-term indebtedness	182	721
	321	295
Net Cash Inflow (Outflow)	(55)	131
Cash and Short-term Investments		45
Beginning Of Year	62	17
End Of Year	$ 7	$ 62

Notes to the Consolidated Financial Statements

Year ended March 31, 2004 | in millions

1. Significant Accounting Policies

The New Brunswick Power Corporation ("the Corporation"), established in 1920 as a Crown Corporation of the Province of New Brunswick by enactment of the New Brunswick *Electric Power Act*, has a corporate mission to provide for the continuous supply of energy adequate for the needs and future development of the Province and to promote economy and efficiency in the generation, distribution, supply, sale and use of power.

The accompanying consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, applied on a basis consistent with that of the preceding year. The financial statements include the accounts of the Corporation and those of its wholly owned subsidiary, NB Coal Limited ("NB Coal").

a. Regulation

The Corporation is regulated under a system whereby annual average rate increases greater than three percent, or the Consumer Price Index, whichever is higher, require regulatory review by the Board of Commissioners of Public Utilities of the Province of New Brunswick ("Public Utilities Board"). The Corporation must also apply to the Public Utilities Board before making any expenditure greater that $75 million in relation to upgrading, maintaining or decommissioning a generating facility.

b. Property, plant and equipment

The cost of additions to property, plant and equipment is the original cost of contracted services, direct labour and material, interest on funds used during construction and indirect charges for administration and other expenses, less credits for the value of power generated during commissioning. Property, plant and equipment also includes the present value of asset retirement obligations related to the disposal of used nuclear fuel and decommissioning of the nuclear and thermal generating stations.

Interest during construction is capitalized monthly based on the cost of long-term borrowings. When significant assets are removed from service for extended periods of time for refurbishment, interest during construction is charged based on the net book value of the asset concerned.

Contributions in aid of construction, which include amounts received from customers as well as research and development grants in respect of new facilities, are netted against the cost of related assets. Amounts received from customers are being amortized over the estimated service lives of the related assets.

The cost of distribution assets retired, net of dismantlement and salvage, is charged to accumulated amortization. For all other property, plant and equipment dispositions, the cost and accumulated amortization is removed from the accounts, with the gain or loss on disposal being reflected in income.

Amortization is provided for all assets sufficient to amortize the cost of such assets, less estimated salvage value, over their estimated service lives. The estimated service lives of fixed assets are periodically reviewed and any changes are applied prospectively. Amortization is suspended when significant assets are removed from service for extended periods for refurbishment. Amortization is provided on certain mining equipment on an increasing charge basis, the amortization amount being based on the amount of related debt retirement required during the year. All other assets are amortized on a straight-line basis. Amortization is provided on the net cost of property, plant and equipment in respect of which grants have been provided and on amounts contributed by customers.

The main categories of property, plant and equipment are being amortized based on the following average estimated service lives:

Assets	Years
Hydro Generating Facilities	70*
Thermal Generating Stations	35
Nuclear Generating Station	27
Combustion Turbine Generating Stations	25
Terminals and Substations	40
Transmission System	35 – 50
Distribution System	10 – 35
Buildings	
General	40
Head Office	50
Communications and Computer Systems	3 – 15
Mining Equipment	20 – 35
Motor Vehicles	4 – 10

* Components of the hydro generating facilities have service lives between 35 – 100 years

c. Cash and short-term investments

Cash and short-term investments, which are stated at cost, consist of balances with banks and investments in money market instruments.

d. Inventories

Inventories of materials and supplies, and fuel, other than nuclear fuel, are valued at average cost. Nuclear fuel is valued at cost using the first in, first-out method.

e. Deferred debt costs

The Corporation amortizes debenture discounts and premiums, the expenses of issues, and the deferred interest related to debt refinancing, over the lives of the issues to which they pertain.

f. Foreign exchange transactions

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian (CDN) dollars at rates of exchange prevailing at the balance sheet date except where such items have been hedged by the acquisition of a forward exchange contract, in which case the rate established by the terms of the contract is used in the translation. Exchange gains and losses resulting from foreign currency translation are reflected in income.

g. Long-term debt

Long-term debt is recorded on the balance sheet at cost. The estimated fair value of long-term debt is disclosed in the notes to the financial statements using market values or estimates of market values based on debt with similar terms and maturities. The estimated fair value does not include costs that would be incurred to exchange or settle the debt.

h. Sinking funds

The Minister of Finance of the Province of New Brunswick, as Trustee for the Corporation, maintains sinking funds for all debenture issues. Sinking fund earnings are reflected in the Corporation's income and sinking fund investments are deducted from long-term debt as a legally enforceable right to offset costs.

i. Asset retirement obligations

Nuclear and Thermal Generating Stations

In order to provide for the estimated future costs of permanently disposing of used nuclear fuel and decommissioning the nuclear and thermal generating stations to return the sites to a state of unrestricted use, the Corporation recognizes these liabilities taking into account the time value of money.

The following costs have been recognized as a liability as at March 31, 2004:

- The estimated present value of the costs of decommissioning the nuclear and thermal generating stations at the end of their useful lives
- The estimated present value of the fixed cost portion of used nuclear fuel management activities that are required regardless of the volume of fuel consumed
- The estimated present value of the variable cost portion of used nuclear fuel management activities to take into account actual fuel volumes incurred up to March 31, 2004

The liability for used nuclear fuel management is increased for nuclear fuel bundles used each year with the corresponding amounts charged to operations through fuel expense.

The liabilities for nuclear and thermal plant decommissioning and used nuclear fuel management are increased for the passage of time by calculating accretion (interest) on the liabilities. The accretion expense is calculated using the Corporation's credit adjusted risk free rate and is included with amortization expense.

The calculations of the anticipated future costs are based on detailed studies which take into account various assumptions regarding the method and timing of dismantlement of the nuclear and thermal generating stations, the cost of transportation of nuclear material to permanent disposal facilities, and estimates of inflation rates in the future.

Expenditures incurred on a current basis relating to used nuclear fuel management and plant decommissioning are charged against the deferred liability accounts.

In view of potential developments in the technology of decommissioning and used nuclear fuel management, and because of the various assumptions and estimates inherent in the calculations, the Corporation reviews such calculations periodically.

Hydro Generating Stations

The Corporation currently has no intention of decommissioning its hydro generating stations. With either maintenance efforts or rebuilding, the assets are expected to be used for the foreseeable future. Therefore, no removal date can be determined and consequently a reasonable estimate of the fair value of any related asset retirement obligations cannot be made at this time. If, at some future date, it becomes possible to estimate the fair value cost of removing assets that the Corporation is legally required to remove, an asset retirement obligation will be recognized at that time.

Transmission and Distribution Assets

Although some of the Corporation's transmission and distribution assets may have asset retirement obligations, the Corporation expects to use the majority of its transmission and distribution assets for an indefinite period of time. Therefore, no removal date can be determined and consequently a reasonable estimate of the fair value of any related asset retirement obligation cannot be made at this time. If, at some future date, it becomes possible to estimate the fair value cost of removing assets that the Corporation is legally required to remove, an asset retirement obligation will be recognized at that time.

j. Pension plans

Corporation employees are members of the Province of New Brunswick Public Service Superannuation Plan. This multi-employer, defined benefit plan provides pensions based on length of service and the average of the highest five consecutive years of earnings. Pension benefits paid are escalated each year based on the Consumer Price Index to a maximum of 5 or 6 percent depending on retirement date. The Corporation and its employees make contributions to the plan as prescribed in the *Public Service Superannuation Act* and its regulations. NB Coal maintains a private defined benefit pension plan for its employees.

Under both plans, future salary levels affect the amount of employee future benefits, and therefore the projected benefit method pro-rated on services has been used to determine the accrued benefit obligation. The expected return on plan assets is based on the fair value of plan assets. Actuarial gains or losses in excess of 10 percent of the greater of the accrued benefit obligation and the fair value of the plan assets at the beginning of the year are amortized over the expected average remaining service life of the employee group. The transitional asset (fair market value of the plan assets less the accrued benefit obligation as determined at April 1, 2000), is also amortized over the average remaining service life of the employee group.

k. Retirement allowance

The Corporation has a retirement allowance program for employees that provides a lump-sum payment equal to one week of pay for each full year of employment to a maximum of 26 weeks of pay. Actuarial calculations are prepared to determine the amount of the Corporation's obligations

for retirement allowances. The actuarial method used incorporates management's best estimate assumptions to determine the present value of the accrued retirement allowance obligation based on projections of salaries and wages to normal retirement dates. The actuarial present value of accrued retirement allowance obligations for past service is amortized on a straight-line basis over the expected average remaining service life of the employee group.

l. Early retirement programs

The total cost of such programs is charged to income in the year the program is initiated, irrespective of when payments are actually made.

m. Revenue

Billings to residential and general service customers are rendered monthly on a cyclical basis. All other customers are billed at the end of each month. Revenue in respect of items not billed at the end of a fiscal period is estimated and accrued.

n. Derivative financial instruments

In accordance with its hedging policies and objectives, the Corporation only enters into derivative financial instruments to manage underlying exposures. The Corporation formally documents all relationships between hedging instruments and hedged items, as well as its hedging objectives and strategy underlying various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific forecasted transactions.

Hedge accounting, which allows deferral of gains and losses until settlement, is applied when the derivative instrument is designated as a hedge and the derivative is expected to be effective throughout the life of the hedged item. Effectiveness is achieved when changes in the cash flows or fair value of the derivative instrument substantially offset changes in the cash flows or fair value of the hedged item. The Corporation assesses both at inception and on an ongoing basis whether the derivatives used in hedging transactions are effective.

Effective derivatives that meet hedge criteria are not recorded on the balance sheet and any gains or losses on these instruments are deferred and only recognized at the settlement date. Derivative instruments not meeting hedge criteria are accounted for on the balance sheet at fair value and subsequent changes in fair value are recorded in earnings.

If a derivative instrument ceases to exist and is not replaced as part of the Corporation's hedging strategy, the termination gain or loss is deferred and recognized when the gain or loss of the hedged item is recognized. If a hedged item ceases to exist or is no longer probable of occurring, any previously deferred gains or losses associated with a derivative instrument are recognized in earnings. If a hedging relationship is terminated or ceases to be effective, any previously deferred gains or losses are carried forward and recognized in earnings in the same period as the hedged item and any subsequent gains or losses on the fair value of the instrument are recognized in earnings.

The Corporation periodically uses derivative financial instruments to manage the following risks:

- Oil and natural gas prices
- Interest rates
- Foreign currency exchange rates

Oil and Natural Gas Prices

The Corporation enters into oil and natural gas swaps to hedge the anticipated exposure related to changes in the cost of heavy fuel oil in the operations of its generating stations and on a purchase contract largely based on natural gas prices. Gains or losses on these swaps are recognized at the settlement dates as an adjustment to the fuel or purchased power expense.

Interest Rates and Foreign Currency Exchange Rates

The Corporation enters into interest rate swaps to hedge against the interest rate exposure associated with the future issuance of debt. The gains or losses on these interest rate swaps that meet the hedge criteria are accounted for on a settlement basis and are recognized only when the debt is refinanced. The resulting gains or losses are deferred and amortized to interest expense over the new debt term.

The Corporation enters into Canadian dollar – US dollar forward contracts or Canadian dollar – US dollar cross currency interest rate swaps to hedge exchange risk related to forecasted US dollar purchases, and interest and principal obligations on US dollar denominated long-term debt.

Gains or losses on forward contracts hedging forecasted US dollar purchases are deferred and recognized at the settlement date as part of the underlying item. In the event that a forward contract is terminated the realized gain or loss would be recognized under deferred assets or liabilities and recognized in income at the settlement date of the related underlying item.

Gains or losses on forward contracts and cross currency interest rate swaps hedging US dollar interest and principal obligations are recognized through income at the settlement date. Interest is accrued at the hedged rate and outstanding US dollar denominated debt is translated to Canadian dollars at the hedged rate. In the event that a cross currency interest rate swap is terminated, the realized gain or loss would be recognized under deferred assets or liabilities and amortized over the debt term.

The Corporation has also assigned certain US dollar denominated sinking fund assets to provide a hedge against outstanding US dollar debentures. The sinking fund assets and outstanding debentures are translated to Canadian dollars at the current exchange rate with the resulting gains or losses recorded in income in the current period.

o. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from the estimates.

2. Revenues

a) Power sales to the Province of New Brunswick and other government owned organizations are recorded and paid at normal commercial rates.

b) Total revenue includes $84 million (2003 - $135 million) of sales to customers in the United States.

3. Amortization and Decommissioning

	2004	2003
Amortization	$ 196	$ 190
Decommissioning	17	26
	$ 213	$ 216

During 2003, an environmental liability for $11 million related to NB Coal was setup and charged to decommissioning expense.

4. Write-off of Fuel Handling System Costs

The Corporation received environmental approvals and commenced a project in December 2002 to refurbish the 998 megawatt Coleson Cove Generating Station to extend its life and convert it to burn Orimulsion® fuel.

The project also included development and construction of facilities and pipeline capable of handling Orimulsion® fuel. The Corporation had signed a memorandum of understanding for the development of these facilities. The site chosen required investment in a fixed jetty, storage tanks, pumping, and piping to the existing pipelines used to transport heavy oil to the generating station.

Expenses incurred to March 31, 2004 on the fuel delivery system amounted to $47 million ($1 million - 2003). The availability of Orimulsion® fuel is currently uncertain. The method chosen to deliver the Orimulsion® fuel will be determined in conjunction with the pending resolution of the supply contract negotiations for Orimulsion® fuel. Of the $47 million, $44 million is not expected to provide future service value and has been expensed in the year ended March 31, 2004, while $3 million remains in construction-in-progress, pending resolution of the supply contract negotiations for Orimulsion® fuel and evaluation of fuel delivery options (See Note 16).

5. Finance Charges

	2004	2003
Interest expense	$ 240	$ 256
Less: Income from sinking funds, trust funds, and other investments	(31)	(27)
	209	229
Provincial government guarantee fee	20	19
Amortization of deferred debt costs	7	6
Unrealized foreign exchange gains	(1)	(3)
Realized foreign exchange (gains) losses	(2)	1
	233	252
Less: Interest capitalized	(16)	(10)
	$ 217	$ 242

Interest paid on debt during the year was $238 million (2003 - $255 million). Interest received on investments during the year was $27 million (2003 - $23 million).

6. Cash and Short-term Investments

	2004	2003
Cash	$ 4	$ 59
Short-term investments	3	3
	$ 7	$ 62

7. Property, Plant and Equipment

	2004		2003	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Power generating stations	$ 3,742	$ 2,052	$ 3,731	$ 1,976
Transmission system	284	132	278	126
Terminals and substations	428	220	417	213
Distribution system	709	296	719	306
Buildings and properties	59	30	58	29
Communications and computer systems	86	42	79	34
Mining equipment and related assets	53	52	53	49
Motor vehicles	50	32	50	30
Miscellaneous assets	18	14	17	12
Construction-in-progress*	587	—	205	—
	$ 6,016	$ 2,870	$ 5,607	$ 2,725

* Construction-in-progress at March 31, 2004 includes $71 million (2003 - $59 million) of expenditures on the Point Lepreau Generating Station Refurbishment Project. Management's forecasted total construction cost for the project is $940 million. The project has not received final approval.

Construction-in-progress at March 31, 2004 also includes $467 million (2003 - $106 million) of expenditures on the Coleson Cove Generating Station Refurbishment Project. Management's forecasted total construction cost for the project is $672 million, which may increase pending resolution of the supply contract negotiations for Orimulsion® fuel and evaluation of fuel delivery options. In addition, $44 million has been written off (See Note 4).

8. Nuclear Decommissioning and Used Fuel Management Funds

	2004	2003
Used Nuclear Fuel Management Funds		
The used nuclear fuel management trust funds are comprised of:		
1. The Corporation has established a used nuclear fuel segregated fund held in a custodial account to meet the license conditions of the Point Lepreau Generating Station set by the Canadian Nuclear Safety Commission ("CNSC").	$ 76	$ -
2. The Corporation has also established a trust fund pursuant to the *Federal Nuclear Fuel Waste Act* ("NFWA"). In accordance with the NFWA, the Nuclear Waste Management Organization was formed to prepare and review alternatives, and provide recommendations for long term management of nuclear waste. This submission is to occur within three years of the NFWA coming into force. The federal government will determine the strategy for dealing with the long term management of used nuclear fuel based on submitted plans. The NFWA requires major owners of used nuclear fuel in Canada to establish trust funds to finance the long term management of used nuclear fuel. The NFWA requires the Corporation to contribute $4 million annually for the next two years to its trust fund. Further funding requirements beyond this time will be based on the plan chosen. The funds contained in the established fund to meet the license conditions of the generating station described above will also be used to meet these requirements.	24	20
	100	20
Nuclear Decommissioning Fund		
The Corporation has established a decommissioning segregated fund held in a custodial account to meet the license conditions for the Point Lepreau Generating Station set by the CNSC.	76	-
	$ 176	$ 20

9. Deferred Pension Benefit

Corporation employees are members of the Province of New Brunswick Public Service Superannuation Plan ("Public Service Plan") as described in Note 1). Pension assets and liabilities for the Public Service Plan are measured as at March 31, 2004 while the assets and liabilities for the NB Coal plan are measured as at December, 31, 2003. The most recent actuarial valuation done for funding purposes for the Public Service Plan was April 1, 2002. The next valuation for funding purposes is required to be completed as at April 1, 2005.

The significant assumptions of management include the following:

- Discount rate used at March 31, 2004 to determine the accrued benefit obligation – 6.5% (March 2003 – 6.5%)
- Expected long term rate of return on plan assets – 7.5%
- Salary increases – 2.5%

The costs recognized for the year are:

	2004	2003
Current service cost	$ 13	$ 12
Interest on accrued benefit obligation	50	45
Actual (gain) or loss on plan assets	(153)	57
Difference between actual and expected return on plan assets	106	(103)
Amortization of gains/losses and transitional surplus	8	(5)
Costs recognized	$ 24	$ 5

The status of the assets and obligations of the Corporation's share of the Public Service Plan and NB Coal's private plan as at March 31, 2004 was as follows:

	2004	2003
Pension fund assets at fair value	$ 778	$ 621
Accrued benefit obligation	810	756
Pension deficit	(32)	(135)
Unamortized transitional obligation	(40)	(44)
Unamortized losses	139	241
Pension asset	$ 67	$ 60

In accordance with prescribed regulations, employees contributed $10 million (2003 - $10 million) and the Corporation contributed $23 million to the plan (2003 - $12 million) during the year. Total contributions to date in excess of pension expense, in the amount of $67 million (2003 - $68 million), have been recorded as an asset under deferred charges.

10. Long-term Debt

	2004	2003
Debenture guaranteed by the Province of New Brunswick	$ 125	$ 125
Debentures held by the Province of New Brunswick	3,155	2,998
Other loans	6	8
	3,286	3,131
Less: payments due within one year	69	132
Long-term debt	3,217	2,999
Less: sinking funds	403	387
	$ 2,814	$ 2,612

Debentures

Date of Maturity	Average Coupon Rate	Canadian	US	2004	2003
Years ending					
March 31, 2004	7.5%	$ —	$ —	$ —	$ 100
March 31, 2005	2.3%	36	—	36	—
March 31, 2006	5.7%	436	—	436	400
March 31, 2007	5.8%	106	—	106	70
March 31, 2008	4.7%	39	317	356	317
March 31, 2009	7.3%	275	—	275	—
1-5 years	5.7%	892	317	1,209	887
6-10 years	7.2%	1,275	319	1,594	1,459
11-30 years	8.8%	150	327	477	777
Debentures		$ 2,317	$ 963	$ 3,280	$ 3,123
Loans payable in annual installments of principal and interest at rates varying from 4.5% to 8.25% per annum to the year 2011				6	8
Total long-term debt				**$ 3,286**	$ 3,131

The weighted average coupon interest rate on all debentures outstanding at March 31, 2004 is 6.89% (2003 – 7.24%).

The US dollar debenture balance outstanding at March 31, 2004 is US $630 million (2003 – US $650 million).

Long-term debt and sinking fund obligations

Long-term debt principal and sinking fund obligations with respect to debt outstanding at March 31, 2004 are as follows for the five years ending March 31, 2009:

Year ending March 31, 2005	$ 69
Year ending March 31, 2006	469
Year ending March 31, 2007	134
Year ending March 31, 2008	380
Year ending March 31, 2009	297

Cross currency interest rate swaps

a) 7.625% Debentures, due February 2013 – US $100 million
With respect to this debt, the Corporation has entered into a cross currency interest rate swap transaction with Canadian banks that results in an effective fixed interest rate of 7.75125% on CDN $159 million.

b) 6.75% Debentures, due August 2013 – US $100 million
With respect to this debt, the Corporation has entered into a cross currency interest rate swap transaction with Canadian banks that results in an effective fixed interest rate of 6.80025% on CDN $159 million.

c) 4.30% Debentures, due October 2007 – US $200 million
With respect to this debt, the Corporation has entered into a cross currency interest rate swap transaction with the Province of New Brunswick that results in an effective fixed interest rate of 4.7925% on CDN $317 million.

Guarantee fee

The Corporation pays an annual guarantee fee to the Province of New Brunswick, amounting to 0.6489% of the total of long-term debt guaranteed by the Province, debentures held by the Province and short term indebtedness to the Province, less the balance held in sinking funds, measured as at the previous year-end.

11. Short-term Indebtedness

The Corporation borrows funds for temporary purposes from the Province of New Brunswick. The short-term borrowings from the Province of New Brunswick are $477 million at March 31, 2004 (2003 – $295 million). The Corporation may also borrow from banks from time to time. Such borrowings are payable on demand. The Corporation has $89 million in bank lines of credit available for short-term borrowings, guaranteed by the Province of New Brunswick.

NB Coal has bank lines of credit totaling $4 million, which are secured by a general assignment of book debts.

12. Plant Decommissioning and Used Nuclear Fuel Management

The Corporation's nuclear generating station produces used nuclear fuel in the form of radioactive fuel bundles. The used nuclear fuel will need to be disposed of and the nuclear station will need to be dismantled and decommissioned at the end of its service life.

The Corporation also provides for decommissioning its thermal generating stations at the end of their useful lives.

The liability for plant decommissioning and used nuclear fuel management consists of the following:

	2004	2003
Used Nuclear Fuel Management		
Balance, beginning of year	$ 61	$ 56
Add: Liabilities incurred	1	1
Add: Accretion expense	4	4
Balance, end of year	66	61
Nuclear Decommissioning		
Balance, beginning of year	129	120
Add: Accretion expense	9	9
Balance, end of year	138	129
Thermal Decommissioning		
Balance, beginning of year	35	33
Add: Accretion expense	2	2
Less: Expenditures	1	—
Balance, end of year	36	35
Total plant decommissioning and used nuclear fuel management liability at end of year	**$ 240**	$ 225

Liability for Used Nuclear Fuel Management

The liability for used nuclear fuel management costs represents the cost of managing the radioactive used nuclear fuel bundles generated by the nuclear station. The liability is partially funded (See Note 8). The key assumptions on which the liability is based are:

- The total undiscounted amount of the estimated cash flows required to settle the liability is $454 million
- The management of the used nuclear fuel will require cash expenditures until 2047 to settle the liability
- The credit adjusted risk free rate at which the estimated cash flows have been discounted is 7.1%
- The end of the service life of the station is 2010

Liability for Nuclear Decommissioning

The liability for nuclear decommissioning represents the costs of decommissioning the nuclear generating station after the end of its service life. The liability is partially funded (See Note 8). The key assumptions on which the liability is based are:

- The total undiscounted amount of the estimated cash flows required to settle the liability is $478 million
- The decommissioning of the nuclear generating station will require cash expenditures until 2052 to settle the liability
- The credit adjusted risk free rate at which the estimated cash flows have been discounted is 7.1%
- The end of the service life of the station is 2010

Liability for Thermal Decommissioning

The liability for thermal decommissioning represents the costs of decommissioning the thermal generating stations after the end of their service lives. The liability is not funded. The key assumptions on which the liability is based are:

- The total undiscounted amount of the estimated cash flows required to settle the liability is $94 million
- The decommissioning of the thermal generating stations will require cash expenditures until 2033 to settle the liability
- The credit adjusted risk free rate at which the estimated cash flows have been discounted is 7.1%

13. Deferred Liabilities – Other

	2004	2003
Early retirement programs	$ 30	$ 24
Retirement allowance program	15	13
Other future employee benefits payable	1	1
NB Coal environmental liability	10	11
	56	49
Less: amounts due within one year	3	4
	$ 53	$ 45

Retirement Allowance Liability

The interest rate used in the calculation of this obligation was 6.5% and the assumed rate of salary escalation was 2.5%. The latest actuarial calculation was completed as at April 1, 2003.

The retirement allowance obligation as at March 31, 2004 is $28 million (2003 – $27 million). The retirement allowance expense for the year ended March 31, 2004 was $4 million (2003 – $4 million). The cumulative amount expensed in excess of amounts paid out under the retirement allowance program has been set up as a deferred liability.

NB Coal Environmental Liability

During the prior year, the Corporation and its subsidiary, NB Coal, developed a long term plan to treat acidic water drainage from an inactive mine. The plan involves building a permanent water treatment facility which will be used to treat the site for as long as required. In 2003, NB Coal recognized an environmental liability equal to the net present value of the expected future costs.

	2004	2003
Balance, beginning of year	$ 11	$ —
Add: Liabilities incurred	—	11
Add: Accretion expense	1	1
Less: Expenditures	2	1
Balance, end of year	**$ 10**	**$ 11**

14. Amounts Charged or Credited to Operations Not Requiring a Current Cash Payment

	2004	2003
Amortization and decommissioning	$ 213	$ 216
Amortization of deferred debt costs	7	6
Unrealized foreign exchange gains	(1)	(3)
Used nuclear fuel liabilities incurred	1	1
Retirement expenses less related funding	7	3
Pension expenses less related funding	1	(7)
Write-off of fuel handling system costs	44	—
Other	2	—
	$ 274	$ 216

15. Financial Instruments

Fair value of financial instruments

The fair value of financial instruments have been estimated by reference to quoted market prices or from valuations supplied by counter parties for actual or similar instruments at the fiscal year-end, unless otherwise noted.

Interest rate and foreign exchange risk management

At March 31, 2004, the Corporation had outstanding forward cross-currency interest rate swaps effectively hedging principal and interest payments as follows:

Cross-Currency Interest Rate Swaps	2004	2003
US debt amount (in millions)	$ 400	$ 400
Weighted average interest rate	6.04%	6.04%
Weighted average exchange rate	1.5883	1.5883
Fair value liability (in millions)	$ (122)	$ (21)

At March 31, 2004, the Corporation had outstanding foreign exchange contracts maturing over the next eighteen months as follows:

Foreign Exchange Contracts	2004	2003
Net commitment to purchase USD (in millions)	$ 106	$ 263
Weighted average exchange rate	1.4879	1.5864
Fair value liability (in millions)	$ (18)	$ (17)

Fuel price risk management

At March 31, 2004, the Corporation had outstanding heavy fuel oil swap contracts maturing over the next twelve months as follows:

Heavy Fuel Oil Swaps	2004	2003
Notional amount (in barrels)	3.3 million	1.2 million
Weighted average fixed price/barrel (in USD)	$ 21.92	$ 17.69
Fair value asset (in millions)	$ 9	$ 3

At March 31, 2004, the Corporation had outstanding natural gas swap contracts maturing over the next eighteen months as follows:

Natural Gas Swaps	2004	2003
Notional amount (in btu's)	10.1 million	1.3 million
Weighted average fixed price/btu (in USD)	$ 5.95	$ 3.92
Fair value asset (in millions)	$ 14	$ 4

Under these agreements, the Corporation exchanges monthly payments based on the differential between a fixed price and a monthly cumulative floating price for the associated fuel. The differential to be paid or received is reflected in the cost of purchased power or fuel expense.

Fair value of debt and sinking funds

Long-Term Debt		in millions
	2004	2003
Long - Term Debt		
Book value	$ 3,286	$ 3,135
Fair value	$ 3,879	$ 3,639
Sinking Funds		
Book value	$ 403	$ 387
Fair value	$ 452	$ 429

Fair value of nuclear decommissioning and used fuel management funds

Nuclear Decommissioning & Used Fuel Management Funds		in millions
	2004	2003
Book value	$ 176	$ 20
Fair value	$ 183	$ 20

Fair value of other financial assets and liabilities

The fair values of all other financial assets and liabilities are not materially different from their carrying values.

Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Corporation conducts a thorough assessment of debtors prior to granting credit and actively monitors the financial health of its debtors on an on going basis. The maximum credit risk exposure is deemed to be the sum of accounts receivable, net of applicable reserves, and the total unrealized gains on other financial instruments exposed to credit risk. Accounts receivable, net of applicable reserves is $181 million (2003 - $188 million). The total unrealized gains on other financial instruments exposed to credit risk are $23 million (2003 - $12 million).

16. Commitments and Contingencies

Coleson Cove Generating Station Refurbishment

Expenditures to March 31, 2004 to refurbish, extend its service life and install emission control equipment amounted to $467 million (2003 - $106 million). The refurbishment project is expected to be completed by January 2005 (See Note 7).

Belledune Wharf

The Corporation has entered into an operating lease expiring in 2013, with a twenty-year renewal option, for the port facility at Belledune. This lease provides for annual charges of approximately $3 million.

Courtenay Bay Generating Station

The Corporation has entered into a lease agreement for site facilities, expiring in 2021, with a five-year option to extend. The tenant has re-powered an existing 100 MW unit to a 280 MW combined cycle natural gas unit, which began commercial operation effective September 2003.

The Corporation has also entered into a related power purchase and transmission access agreement expiring in 2021, with a five-year option to extend, with the same third party. The Corporation will purchase all the electrical energy produced by the re-powered 280 MW combined cycle natural gas unit during the winter period, November 1 to March 31, and from time to time, some or all of the electrical energy produced during the summer period.

Power Purchase Agreements

The Corporation has entered into a 20-year power purchase agreement to purchase all the capacity and electrical energy produced by a 90 MW co-generation facility that is expected to begin production in December 2004.

The Corporation also has an outstanding power purchase agreement for 38.5 MW of capacity and electrical energy from a co-generation facility which expires in 2027.

Gas Transportation Agreement

The Corporation has entered into an agreement expiring in 2015, for firm natural gas transportation service to the re-powered Courtenay Bay Generating Station. The cost of transportation will be recovered from the tenant referred to in the lease of the generating station.

Orimulsion® Fuel Supply

The Corporation has an agreement with Bitor America Corporation to purchase Orimulsion® fuel for the Dalhousie Generating Station to 2010. Also, the Corporation signed a term sheet and negotiated a contract with Bitor America Corporation for the purchase of Orimulsion® fuel for the Coleson Cove Generating Station for a twenty-year term, beginning in 2004. In February 2004, the Corporation filed a lawsuit against Bitor America Corporation and Petroleos de Venezuela ("PDVSA") for breach of contract. The legal action was taken against the Orimulsion® fuel supplier to protect the benefits in the contract for the Coleson Cove Generating Station Refurbishment.

Computer Equipment

The Corporation has entered into operating leases relating to computer equipment. The future minimum lease payments under these leases are as follows:

	2004		2003	
2005	$ 4		$ 3	
2006	2		1	
2007	1		—	
	$ 7		$ 4	

17. Restructuring

In April 2003 the Province of New Brunswick enacted the *Electricity Act*. This *Act* provides for:

- The restructuring of New Brunswick Power Corporation into five crown corporations:
  - New Brunswick Power Holding Corporation
  - New Brunswick Power Nuclear Corporation
  - New Brunswick Power Generation Corporation
  - New Brunswick Power Transmission Corporation
  - New Brunswick Power Distribution and Customer Service Corporation
- The establishment of a New Brunswick System Operator, a not for profit organization whose primary objective is to independently direct the operation of the electricity market and maintain the adequacy and reliability of the transmission grid.
- The establishment of the New Brunswick Electric Finance Corporation. The New Brunswick Electric Finance Corporation will provide financing and financial backing as required by the new operating companies until such time as they can borrow on their own.

The *Act* also allows for the Province of New Brunswick to:

- Cause the Generation Corporation to sell all or part of its assets comprising the Coleson Cove Generating Station, or enter into an agreement, including a trust, lease, partnership, joint venture or operating agreement, with respect to the Coleson Cove Generating Station.
- Cause the Nuclear Corporation to enter into an arrangement including a trust, lease, partnership, joint venture or operating agreement with respect to the Point Lepreau Nuclear Generating Station.
- Effect the transferring of officers, employees, assets, liabilities, rights and obligations of New Brunswick Power Corporation to the New Brunswick Power Holding Corporation, the four operating companies, the System Operator and the Electric Finance Corporation. The transfers of assets, liabilities, rights and obligations will be done at their book values.

The *Act* received royal assent on April 11, 2003 and is expected to be proclaimed during 2004/05.

18. Comparative Figures

Certain 2003 figures have been reclassified to conform to the 2004 financial statement presentation.

Statistical Overview

Statement of Generation

millions of KWh

	2003/04	2002/03	2001/02	2000/01	1999/00
Hydro	**3,191**	2,057	1,910	2,373	3,018
Thermal	**10,838**	11,510	12,206	12,507	9,763
Nuclear	**5,120**	4,294	4,938	5,986	6,323
Combustion turbine	**50**	57	13	39	19
Purchases	**1,371**	1,752	1,945	2,082	4,712
Gross Generation and Purchases	**20,570**	19,660	21,012	20,910	21,835
Station service	**1,612**	1,584	1,121	1,106	995
Net Generation and Purchases	**18,958**	18,076	19,891	19,804	20,840
Losses - transformer and transmission	**614**	649	498	683	698
Total Energy Available for Distribution	**18,984**	17,959	19,393	19,221	20,162

Statement of Sales

millions of KWh

	2003/04	2002/03	2001/02	2000/01	1999/00
Wholesale	**1,227**	1,216	1,132	1,179	1,126
Industrial	**6,178**	6,156	6,887	6,068	5,824
General service	**2,257**	2,216	2,119	2,111	2,093
Residential	**4,529**	4,674	4,463	4,587	4,371
Street lights	**74**	74	74	74	73
Total In-Province Sales	**14,640**	14,540	13,795	14,011	13,587
Interconnections	**3,927**	3,609	5,264	4,876	6,256
Total Sales	**18,570**	17,909	19,059	18,888	19,843
Distribution losses	**374**	356	334	333	320
Total Energy Distributed and Sold	**18,944**	17,959	19,393	19,221	20,162

Statement of Sales

in millions

	2003/04	2002/03	2001/02	2000/01	1999/00
Wholesale	$ **80**	$ 77	$ 76	$ 73	$ 71
Industrial	**306**	316	294	296	288
General service	**156**	150	140	139	136
Residential	**409**	393	356	364	340
Street lights	**18**	17	17	18	13
Total In-Province Sales	**1,069**	993	919	931	868
Interconnections	**246**	227	259	332	329
Sales of Power	**1,255**	1,220	1,178	1,263	1,211
Miscellaneous	**56**	53	41	46	31
Total Revenue	$ **1,311**	$ 1,273	$ 1,219	$ 1,309	$ 1,240

Statement of In-Province Generation

millions of KWh

	2003/04	2002/03	2001/02	2000/01	1999/00
Hydro	**3,191**	2,057	1,910	2,373	3,019
Coal and petroleum coke	**3,644**	3,886	3,500	3,762	3,677
Heavy fuel oil	**2,402**	3,235	2,706	3,232	1,796
Orimulsion®	**1,494**	1,892	1,818	1,761	1,830
Nuclear	**4,644**	4,101	4,638	3,567	3,960
Combustion turbine	**23**	24	4	12	4
Purchases	**1,223**	1,405	1,344	1,302	1,249
Gross Generation and Purchases	**16,621**	16,600	15,720	16,009	15,555
Station service	**184**	1,053	1,093	1,065	958
Net Generation and Purchases	**15,637**	15,547	14,627	14,944	14,597
Losses - transformer and transmission	**614**	648	498	603	698
Total Energy Available for Distribution	**15,023**	14,899	14,129	14,347	13,899

[1] Includes adjustment of 76 GWh arising mainly from a change in the assessment and measurement basis related to the year.

Peak Demand and Capacity

MW

	2003/04	2002/03	2001/02	2000/01	1999/00
System net generating capacity	**3,770**	3,770	3,769	3,774	4,119
Firm capacity purchases	**505**	505	499	347	349
Total Available Resources	**4,275**	4,275	4,268	4,121	4,468
In-province system net peak demand	**3,340**	3,089	2,708	2,803	2,856
Firm exports	**395**	590	953	664	427
Operating reserve	**657**	665	618	668	612
Total Requirement	**4,393**	4,344	4,279	4,075	3,895

Operating Statistics

march 31[1]

	2003/04	2002/03	2001/02	2000/01	1999/00
Transmission lines - km	**6,609**	6,606	6,665	6,706	6,680
Distribution lines - km	**19,883**	19,704	19,571	[1]19,008	18,8[illegible]
Residential customers	**293,565**	290,310	286,464	283,743	280,513
Industrial customers	**1,810**	1,842	1,854	1,851	1,847
General service customers	**24,024**	23,963	23,635	23,535	23,345
Non metered customers	**2,484**	2,620	2,710	2,901	3,250
Direct customers	**321,783**	318,735	314,663	312,030	308,955
Indirect customers	**41,656**	41,502	41,777	41,694	41,678
Total Customers	**363,439**	360,237	356,440	353,724	350,633
Regular Positions	**2,667**[1]	2,545	2,499	2,428	2,445
Term Positions	**92**[1]	141	131	77	84
Employees - NB Coal Limited	**70**	76	70	101	102
Total Employees	**2,829**	2,762	2,698	2,606	2,631

[1] Beginning in 2003/04, the employee number reflects the number of approved complement, i.e., one per the total of establishment actions, previous years reflect actual employees.

Income Statement Summary

in millions

	2003/04	2002/03	2001/02	2000/01	1999/00
In-province revenue	$ 1,009	$ 993	$ 919	$ 931	$ 888
Out-of-province revenue	246	227	359	332	329
Miscellaneous	56	53	41	46	31
Total fuel and purchased power	467	528	492	504	398
Operations, maintenance and administration	388	364	339	312	317
Amortization and decommissioning	213	216	213	218	202
Write-off of fuel handling system costs	44	–	–	–	–
Finance charges	217	242	256	355	268
Net income (loss)	$ (18)	$ (77)	$ 19	$ (80)	$ 63

Balance Sheet Summary

march 31st - in millions

	2003/04	2002/03	2001/02	2000/01	1999/00
Assets					
Current assets	$ 287	$ 355	$ 293	$ 313	$ 285
Property, plant and equipment	3,146	2,882	2,860	2,928	3,020
Long-term assets	176	20	–	–	17
Deferred charges	120	130	103	79	60
Total Assets	$ 3,729	$ 3,387	$ 3,256	$ 3,320	$ 3,382
Liabilities and Deficit					
Current liabilities	$ 817	$ 682	$ 941	$ 584	$ 628
Long-term debt	2,814	2,612	2,171	2,624	2,578
Deferred liabilities	293	270	244	231	215
Deficit	(195)	(177)	(100)	(119)	(39)
Total Liabilities and Deficit	$ 3,729	$ 3,387	$ 3,256	$ 3,320	$ 3,382

Cash Flow Summary

in millions

	2003/04	2002/03	2001/02	2000/01	1999/00
Operating cash flow	$ 256	$ 139	$ 234	$ 214	$ 229
Change in working capital	29	14	(35)	16	22
Nuclear trust fund payments	(156)	(20)	–	–	–
Other	(8)	(7)	–	–	–
Operating activities	121	126	199	230	251
Financing activities	321	131	(104)	(91)	(170)
Investing activities	(497)	(212)	(135)	(116)	(54)
Net cash inflow (outflow)	(55)	45	(40)	23	27
Cash and short-term investments					
Beginning of year	62	17	57	34	7
End of year	$ 7	$ 62	$ 17	$ 57	$ 34

Finance Charges

in millions

	2003/04	2002/03	2001/02	2000/01	1999/00
Interest expense	$ 240	$ 256	$ 265	$ 282	$ 388
Income from sinking fund and other investments	(31)	(27)	(24)	(25)	(28)
Provincial Government guarantee fee	20	19	19	19	20
Amortization of deferred debt costs	7	6	4	4	5
Foreign exchange (gain) or loss	(3)	(2)	(3)	79	(36)
Interest capitalized	(16)	(10)	(5)	(4)	(2)
Net finance charges	**$ 217**	$ 242	$ 256	$ 355	$ 268

Financial Ratios

	2003/04	2002/03	2001/02	2000/01	1999/00
Operating margin	13.9%	11.6%	19.4%	19.6%	24.9%
Operating cash flow / capital expenditures [2]	0.52x	0.66x	1.73x	1.84x	4.24x
Operating cash flow / total debt	0.08x	0.05x	0.08x	0.07x	0.08x
Percent of debt in capital structure [3]	106%	106%	104%	104%	101%
Interest coverage ratio [4]	0.88x	0.68x	1.06x	1.00x	1.10x

Other Statistics

	2003/04	2002/03	2001/02	2000/01	1999/00
Rate increase [1]	2.6%	2.1%	–	3.0%	–
CPI (New Brunswick)	3.4%	3.4%	1.7%	3.3%	1.6%
GDP increases (New Brunswick)	2.0%	4.0%	1.0%	3.1%	6.1%
Capital expenditures (millions) [1,5]	$ 497	$ 212	$ 135	$ 116	$ 54
Change in total debt (millions)	$ 321	$ 149	$ (81)	$ –	$ (206)
% Breakdown of long-term debt:					
Canadian dollar	71%	68%	68%	67%	69%
US dollar	29%	32%	32%	33%	31%
Weighted average coupon interest rate	6.9%	7.2%	8.1%	8.4%	8.9%
Canadian Dollar - March 31st	$ 0.763	$ 0.681	$ 0.628	$ 0.634	$ 0.688

Glossary of Company Names, Acronyms and Abbreviations

Company Names

New Brunswick Power Corporation	NB Power, NBP
New Brunswick Power Holding Corporation*	NB Power Holding, NBPH
New Brunswick Power Generation Corporation*	NB Power Generation, NBPG
New Brunswick Power Nuclear Corporation*	NB Power Nuclear, NBPN
New Brunswick Power Transmission Corporation*	NB Power Transmission, NBPT
New Brunswick Power Distribution and Customer Service Corporation*	NB Power Distribution and Customer Service, NBPDCS
New Brunswick Power Coleson Cove Corporation*	NB Power Coleson Cove, NBPCC

Other Companies

AECL	Atomic Energy of Canada Limited
BITOR	Bitúmenes Orinoco
CEA	Canadian Electricity Association
CNA	Canadian Nuclear Association
FERC	Federal Energy Regulatory Commission
IBEW	International Brotherhood of Electrical Workers
ISO-NE	Independent System Operator of New England
MECL	Maritime Electric Company Limited
NBEFC	New Brunswick Electric Finance Corporation
NBSO	New Brunswick System Operator
NERC	North American Electrical Reliability Council
NPCC	Northeast Power Co-ordinating Council
NWMO	Nuclear Waste Management Organization
PDVSA	Petroleos de Venezuela
WANO	World Association of Nuclear Operators

Regulatory and State Agencies

CNSC	Canadian Nuclear Safety Commission
DELG	Provincial Department of Environment and Local Government
NEB	National Energy Board
PUB	Board of Commissioners of Public Utilities of New Brunswick

Business Acronyms and Abbreviations

EBIT	Earnings Before Income Taxes
ECC	Energy Control Centre
EMS	Environmental Management System
EMPs	Environmental Management Plans
GHG	Greenhouse Gas Emissions
HFO	Heavy Fuel Oil
IPL	International Power Line
kV	Kilovolt
LCT	Large Corporate Taxes
MW	Megawatt
MWh	Megawatt per Hour
OM&A	Operations, Maintenance and Administration Expenses
OASIS	Open Access Same Time Information System
OATT	Open Access Transmission Tariff
PPA	Power Purchase Agreement
Regular Capital	Capital expenditures to maintain infrastructure funded from cash flow from operating activities
RFP	Requests for proposal
ROE	Return on Equity
SAIDI	System Average Interruption Duration Index
SAIFI	System Average Interruption Frequency Index
TWh	Terawatt per Hour
TA	Tolling Agreement

* This legal form will evolve from the current structre with proclamation of the new *Electricity Act*, expected during 2004/05.

Corporate Governance

Board of Directors

The Board of Directors (the "Board") is committed to high standards of corporate governance to further the achievement of the Corporation's legislated mandate and business objectives. Governance practices are consistent with recommendations from a number of organizations and are currently being reviewed to align with corporate restructuring, changes from the new *Electricity Act* and developing standards in other jurisdictions.

The Board consists of up to 10 members, all independent directors, appointed by the Provincial Government. The President and Chief Executive Officer is an *ex officio* member of the Board and its committees. Each director is required to declare annually employment, business and personal relationships which would, or could reasonably be perceived to, interfere with their ability to act in the best interests of the Corporation, a process managed by the Corporation's external auditors. Meetings are held regularly and the Board or its committees will hold meetings from time-to-time without senior management present. To assist members in their roles, the Board has guidelines defining duties and responsibilities, and new directors receive an orientation program providing them with strategic and operations information.

The Board is responsible for ensuring the following programs are effectively directed and managed:

- strategic planning
- performance of the President and CEO
- senior management succession
- enterprise business risk management
- accounting/financial reporting (independent audit and risk, financial control and legal compliance)
- communications

Business objectives and performance expectations are established by the Board and senior management is responsible for business operations and may pursue initiatives consistent with approved budgets, policies and strategic direction. At regular meetings, senior management provides reports on operations and emerging issues.

Board Activities

During 2003/04, at 14 meetings, the Board reviewed and approved management's programs, performance targets and budgets including the *NB Power Corporation Business Plan and Financial Forecast 2004/05 to 2006/07*. Board committees also provided oversight in specific areas:

- The **Financial Restructuring Committee** provided direction on market and financial restructuring issues and acted as a liaison with the Provincial Government. At two meetings, the Committee directed the restructuring process for the holding and operating company structures and related governance, management/staffing and financial issues.

- The **Audit Committee** assessed the integrity of financial reporting, internal control/management information systems, and audit processes. The Committee had direct communication with the independent auditors and met with the auditors without management present. It was also responsible for monitoring business risk management plans and controls. During four meetings, it reviewed and approved the financial statements, monitored the enterprise risk management process, reviewed accounting policy issues and emerging issues in financial reporting and accounting governance.

- The **Human Resources and Corporate Governance Committee** reviewed the human resources strategy and addressed the issue of non-union compensation. The committee oversaw the restructuring of the Corporate Human Resources division to align with the restructuring of NB Power. It ensured due diligence on health and safety issues and oversaw work on succession planning, pensions and benefits. This committee met seven times.

- The **Environment Committee** reviewed adherence to the Corporation's environmental policy, monitored environmental management programs and reviewed the *Environmental Performance Report*. It also monitored environment management system implementation, compliance audits, facility re-licensing and environmental aspects of capital projects. Additionally, external auditors assessed the completeness, valuation and disclosure of material environmental liabilities and contingencies. This committee met three times.

The Board is currently reviewing emerging practices in light of corporate governance evolution, particularly the *Sarbanes-Oxley Act* in the United States and pending legislation in Ontario. The review also involves development of a governance manual, as well as work on profiles for prospective board members, clearer articulation of board policies and more rigour in processes for setting strategic direction.

Board of Directors

Leon R. Furlong
Chair
Mr. Furlong is past president and chief executive officer of Atlantic Blue Cross Care. He also serves on the board of directors for several companies including Blue Cross Life Insurance Company of Canada and Resurgo Inc.

Jean-Marc Violette
Vice-Chair
Mr. Violette is a farmer and woodlot manager in St. Leonard and has been active in the agriculture sector. He has served on the Farm Debt Review Board and the Farm Development Board.

Barbara S. Bender*
Ms. Bender is vice president of Spartan Systems and has been executive director of the N.B. Institute of Chartered Accountants. She is director of the Public Service Pension Investment Board and serves on their audit committee. Ms. Bender is also the public representative on the N.B. College of Physicians and Surgeons.

David D. Hay
President and Chief Executive Officer
Mr. Hay became president and chief executive officer in March 2004. He spent the past eight years as Managing director of Delgatie Inc., a financial services advisory firm and prior to that he was senior vice president and director with Merrill Lynch Canada Inc. and managing director within the firm's Investment Banking Division in London, England.

Philippe DesRosiers
A former vice president of the National Bank, Mr. DesRosiers was responsible for retail, corporate and commercial banking in Atlantic Canada. He is also chairman on the board of trustees at Dr. Georges-L. Dumont Hospital Foundation and serves on the board of directors of Assumption Life.

Lino J. Celeste
Mr. Celeste is former chief executive officer of NBTel and chairman of the board of directors of Aliant Inc. He serves on the board of Manulife Financial Corporation and chair of the Saint John Foundation.

Roger Clinch*
Mr. Clinch is a senior executive with Noranda in New Brunswick where he is responsible for communication and information services.

Bernard Cyr
Mr. Cyr is owner of Cyr Holdings which operates the Chateau Moncton Hotel, develops commercial properties and operates various restaurants. Mr. Cyr is also owner and franchisor of the Dooly's group. He is a director of the National Bank of Canada and the Dr. Georges-L. Dumont Hospital Foundation.

Thomas Soucy
Mr. Soucy is president and chief executive officer of Groupe Westco in Saint-François, N.B. He is a member of the Canadian Poultry and Egg Processing Council and director on the board of directors of a Quebec logging company.

* Term expired March 31, 2004

Board Committees

Audit Committee
Barbara Bender – Chair
Lino J. Celeste
Leon R. Furlong
Jean-Marc Violette
Thomas Soucy

(Barbara Bender's term expired March 31, 2004 and Lino J. Celeste is now Chair.)

Environment Committee
Philippe DesRosiers – Chair
Roger Clinch
Jean-Marc Violette
Leon R. Furlong

(Roger Clinch's term expired March 31, 2004.)

Human Resources and Corporate Governance Committee
Roger Clinch – Chair
Leon R. Furlong
Lino J. Celeste
Bernard Cyr
Philippe DesRosiers
Jean-Marc Violette

(Roger Clinch's term expired March 31, 2004 and Leon R. Furlong is now Chair.)

Financial Restructuring Committee
Leon R. Furlong – Chair
Lino J. Celeste
Philippe DesRosiers

Senior Management

David D. Hay
President and CEO

Mr. Hay became President and CEO in March 2004. He spent the past eight years as Managing Director of Delgatie Inc., a financial services advisory firm and prior to that he was Senior Vice President and Director with Merrill Lynch Canada Inc. and Managing Director within the firm's Investment Banking Division in London, England.

Darrell Bishop
Vice President, Generation (Conventional)

Mr. Bishop joined NB Power in 1971 as a control engineer and subsequently held a series of positions of increasing responsibility in areas of system operations, contract development, planning, engineering and customer service. He became Generation's Director of Energy Marketing and Fuels in 1999. He was appointed Vice President in 2004.

Wayne Snowdon
Vice President, Transmission

Mr. Snowdon was appointed General Manager, Transmission in 2002 and Vice President in 2004. Previously, a Director, Energy Control Centre, he oversaw transmission operations and led the transition to open transmission access. He has worked closely with electric utility reliability and coordinating councils in North America. He was appointed Vice President in 2004.

Sharon MacFarlane
Vice President, Finance

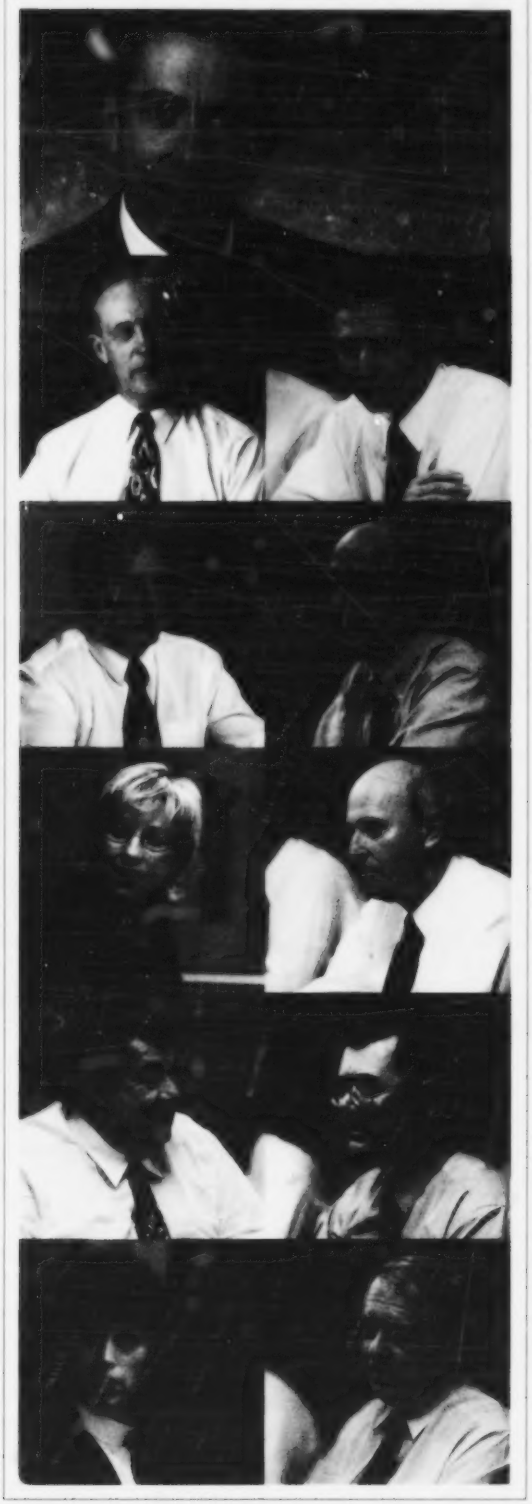
Responsible for corporate financial programs, Ms. MacFarlane oversees Financial Planning, Treasury, Financial Reporting and Audit operations. A chartered accountant, she was previously Vice President, Finance and Administration at Mount Allison University before joining NB Power in 1997.

Andrew Cormier
Vice President, Shared Services
and President, NB Coal

Following mine management experience with private sector companies, Mr. Cormier joined NB Coal. He was appointed General Manager and President in 1982. In 1997, he was given responsibility for corporate telecommunications, materials and environment. In 2003, he was named Vice President, Shared Services.

Wanda Harrison
Corporate Secretary and General Counsel

Ms. Harrison is responsible as the corporate secretary and legal counsel to the Board of Directors and its committees as well as senior management, and for managing corporate legal services. She joined NB Power in 1989 from private practice and has served as Senior Solicitor and Associate Corporate Secretary and General Counsel.



Rod White
Vice President, Nuclear

With experience in Generation at NB Power, Mr. White has been a Vice President since 1997. He is responsible for the Point Lepreau Generating Station and the refurbishment project. He was a General Manager in Generation and Station Manager at Coleson Cove and Belledune.

Bob Crawford
Vice President, Customer Service

Mr. Crawford has experience in Generation, Nuclear and Customer Service. He has been a Station Manager in Generation and led performance improvement at Point Lepreau. Since 2000, he has been responsible for customer service delivery, distribution system operation and rate design. He was appointed Vice President in 2004.

Paul Thériault
Vice President, Human Resources

Mr. Thériault joined NB Power in 1992 from the Provincial Government. He is responsible for human resources management, particularly integrating recruitment, compensation, performance, wellness, labour relations, and safety programs with business objectives.

Ken Little
Vice President, Corporate Planning

Mr. Little joined NB Power in 1977 and he has held executive positions in Finance, Treasury and Customer Service and Marketing. Since 2000, he has been responsible for regulatory hearings and restructuring and in 2003 was named Vice President, Corporate Planning.

Bob Scott
Director, Public Affairs

Mr. Scott joined NB Power in 2002 after holding senior communications positions in the Provincial Government and Crown Corporations. He has served as Senior Policy Advisor and Communications Director (Acting) to the Premier of New Brunswick and is a member of The College of Fellows of the Canadian Public Relations Society.

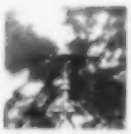
System Map

Total Thermal	1,323 MW
Total Combustion Turbine	327 MW
	535 MW
Total Hydro	884 MW

System Map

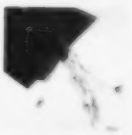
Generating Capacity

Thermal	
Grand Lake	57 MW
Courtenay Bay	110 MW
Dalhousie	300 MW
Coleson Cove	366 MW
Belledune	458 MW
Total Thermal	**1,923 MW**
Combustion Turbine	
Grand Manan	28 MW
Millbank	199 MW
Ste. Rose	100 MW
Total Combustion Turbine	**327 MW**
Nuclear	
Point Lepreau	**635 MW**
Hydro	
Milltown	4 MW
Tobique	20 MW
Sisson	9 MW
Grand Falls	66 MW
Beechwood	113 MW
Mactaquac	672 MW
Total Hydro	**884 MW**

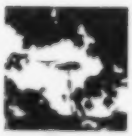


Cover – View from the base of one of NB Power's 138 kV transmission towers.

p. 6 – Construction continues as part of the refurbishment of the Coleson Cove Generating Station.



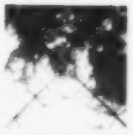
p. 8 – NB Power's Youth Leadership Program provided $21,000 in scholarships to graduating students in the 14 New Brunswick school districts.



p. 10 – A new design for raptor platforms, introduced in 2003, has helped increase transmission line reliability while providing habitat for the endangered species.

p. 12 – The rotor of one of the generators at Beechwood is being removed in preparation for a major rewind.

p. 14 – Nuclear fuel bundles like this one, containing Uranium, power the Point Lepreau Nuclear Generating Station.



p. 16 – View from underneath one of NB Power's transmission towers.

p. 18 – NB Power line workers ensure the reliability of the Corporation's 20,000 kilometers of power lines.

p. 33 – NB Power's Board is committed to high standards of corporate governance.

To obtain additional or French copies of this report, please contact:

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For more information on our business development projects, or to download NB Power publications like our *Environmental Performance Report*, visit **www.nbpower.com**